Investment Monthly – April 2020

Unknown unknowns

This report is not a product recommendation.

HSBC

Summary

Macro Outlook

- Governments are imposing ever-more restrictive measures to suppress COVID-19, which is imposing a heavy toll on economic activity
- Unemployment is increasing at an unprecedented pace in many economies
- Q2 could see double-digit declines in GDP growth across developed economies, far worse than seen in the global financial crisis of 2008-09
- China, however, is showing signs of gradual recovery in activity levels as the government eases restrictions
- The path for the global economy through 2020 is highly dependent on governments' willingness to maintain virus-suppression policies

Central Banks

- Central banks and finance ministries across the globe have eased policy at an unprecedented pace, including measures not seen before
- The US Federal Reserve, European Central Bank and Bank of England have all significantly boosted asset purchase programmes and introduced huge liquidity provision measures
- Fiscal policy has been loosened in previously-unseen ways in many developed economies (for example, guaranteeing workers incomes). The recently approved US stimulus package is the largest in the country's history
- Emerging market central banks have also cut interest rates rapidly
- However, macro policy cannot stop the precipitous near-term fall in output, which is a supply shock. The aim is to prevent significant second round effects on demand and a persistent reduction in supply capacity

Key Views

- Market volatility has surpassed levels reached during the 2008 financial crisis. Global equities have entered bear market territory at the fastest pace ever. Corporates are under pressure from a global slowdown and lower oil prices
- Although aggressive policy action has provided some support to risk appetite, investors are focused on the spread and speed of COVID-19. Evidence that case growth is "under control" seems to be needed for a sustainable recovery
- This is a very tricky scenario for investors. Volatility is extremely high and there are many "unknown unknowns". This type of environment suggest a **cautious investment strategy in the short-term**
- However, we see a silver lining. Recent market moves have incorporated a lot of bad news which have materially increased prospective returns for risky asset classes, especially compared to government bonds. **Our longer-term strategic view remains pro-risk**. **There is an attractive reward for investors that can take a long-term view and withstand short-term volatility**

Key Risks

#AgeOfUncertainty

Uncertainty remains the pervasive and central feature of the macro environment. This creates episodic volatility in investment markets

Growth/recession risk	Demand and supply shocks are not short-lived
Profits recession	Low profit growth / contraction & credit deterioration
Political uncertainty	Political uncertainty dampens 'animal spirits'

Source: HSBC Global Asset Management, Global Investment Strategy, April 2020
The views expressed are those of HSBC Global Asset Management, they were held at the time of preparation, and are subject to change.

Investment Views

The worldwide spread of COVID-19 has created unprecedented volatility in financial markets. While the economic environment remains very difficult and way forward unusually uncertain, current market pricing creates opportunities for long-term investors

- **Global equities** – On a strategic, longer-term basis we remain overweight. The recent sell-off has increased future return potential, creating opportunities for long-term investors. Over the shorter term, however, we adopt a more cautious stance given high volatility and uncertainty over the economic outlook.
- **Government bonds** – Prospective returns look very low and the market is already pricing in a very pessimistic growth scenario. We remain underweight.
- **Corporate bonds** – Corporate fundamentals are coming under pressure. We remain strategically underweight IG bonds. Within high-yield, recent spread movements have increased the credit risk premium to a level that supports a change to overweight.
- **The COVID-19 situation continues to evolve at rapid pace and we continue to monitor it very closely. We will communicate any further view changes through our usual macro and investment strategy communications suite.**

Equities

Asset Class	Strategic view	View move	Tactical view
Global	▲	–	↔
US	▲	–	↔
UK	▲	–	↔
Eurozone	▲	–	↔
Japan	▲	–	↔
Emerging Markets (EM)	▲	–	
CEE & Latam	↔	–	

Government bonds

Asset Class	Strategic view	View move	Tactical view
Developed Market (DM)	▼	–	
US	▼	–	
UK	▼	–	
Eurozone	▼	–	
Japan	▼	–	
EM (local currency)	▲	–	

Corporate bonds & Alternatives

Asset Class	Strategic view	View move	Tactical view
Global investment grade (IG)	▼	–	↔
USD IG	▼	–	↔
EUR & GBP IG	▼	–	↔
Asia IG	↔	–	
Global high-yield	▲	↑	↔
US high-yield	▲	↑	↔
Europe high-yield	▲	↑	↔
Asia high-yield	▲	–	
EM agg bond (USD)	↔	↑	
Gold	↔	–	
Other commodities	▲	–	
Real estate	↔	–	

Asian assets

Asset Class	Strategic view	View move	Tactical view
EM Asian government bonds (USD)	▼	–	
Asia ex-Japan equities	▲	–	
China	▲	–	
India	▲	–	
Hong Kong	▲	–	↔
Singapore	▲	–	
South Korea	▲	–	
Taiwan	▲	–	

View:
▲ Overweight
↔ Neutral
▼ Underweight

View move:
– No change
↑ Upgraded versus last month
↓ Downgraded versus last month

Tactical view:
Short-term view that can temporarily override longer-term (strategic) view

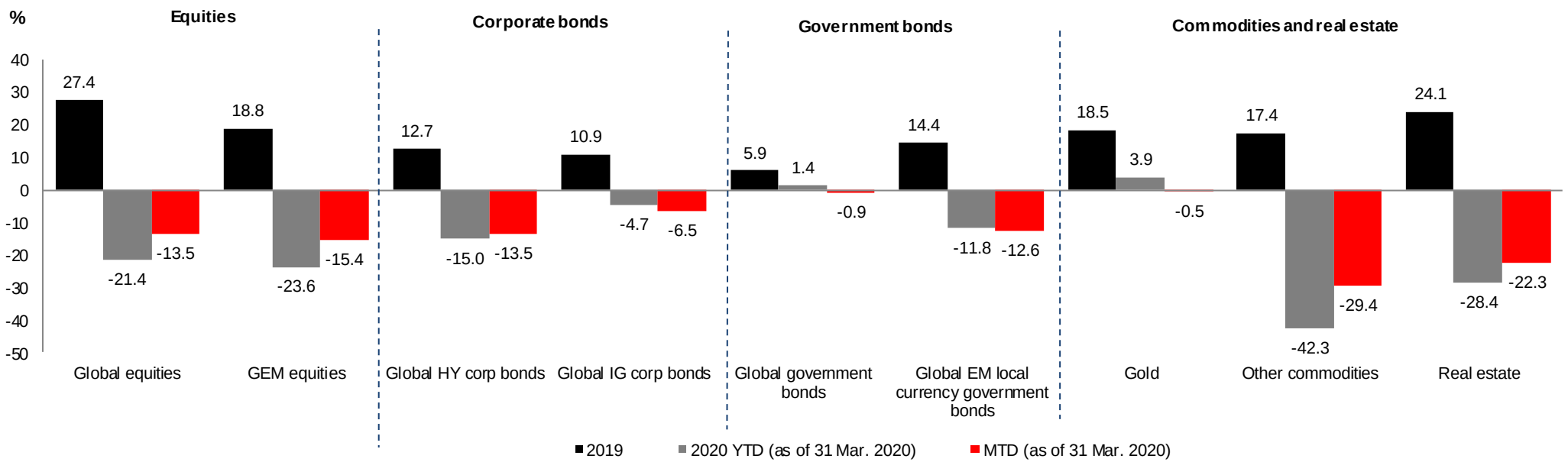
Source: HSBC Global Asset Management, as at April 2020, and subject to change. The views expressed are those of HSBC Global Asset Management, they were held at the time of preparation, and are subject to change.

Asset Class Performance at a glance

Global equities sold off in March, reflecting a sharp deterioration in the global economic outlook as COVID-19 containment measures were ramped up

- **Government bonds** – Large monthly gains came amid increased demand for perceived 'safe havens' and significant policy easing by global central banks
- **Commodities** – Oil prices slumped as a breakdown in relations between Russia and Saudi Arabia triggered a price war, while investors priced in an unprecedented decline in oil demand amid a worsening global economic outlook

Past performance is not an indication of future performance



Note: Asset class performance is represented by different indices.

Global Equities: MSCI ACWI Net Total Return USD Index. **Global Emerging Market Equities**: MSCI Emerging Market Net Total Return USD Index. **Corporate Bonds:** Bloomberg Barclays Global HY Total Return Index value unhedged. Bloomberg Barclays Global IG Total Return Index unhedged. **Government bonds**: Bloomberg Barclays Global Aggregate Treasuries Total Return Index. JP Morgan EMBI Global Total Return local currency. **Commodities and real estate:** Gold Spot $/OZ/ Other commodities: S&P GSCI Total Return CME. **Real Estate**: FTSE EPRA/NAREIT Global Index TR USD.

Source: Bloomberg, all data above as of close of 31 March 2020 in USD, total return, month-to-date terms

Base case views and implications

	Monthly macroeconomic update	Base case view and implications
US	◆ COVID-19 containment measures will likely lead to Q2 seeing a sharp decline in GDP across developed economies, including the US ◆ Preliminary data suggests US unemployment is already rising rapidly	◆ Strategically, we retain our overweight view on US equities. Valuations have significantly improved and US policy easing has been aggressive. However, given the level of uncertainty and fast case growth in the US, we are more cautious on a tactical basis ◆ We remain underweight US government bonds
Europe	◆ COVID-19 is expected to hit the economy via containment measures which are relatively strict compared to other regions. The eurozone's already weak, export-dependent and globally-integrated manufacturing sector is particularly vulnerable ◆ Sharp quarterly declines in Q2 GDP are likely for the Eurozone and the UK	◆ We believe a more neutral stance on European equities is warranted in the short-term given economic challenges and political hurdles to more aggressive policy support. However, improved valuations are supportive of maintaining an overweight strategic view
Asia	◆ **China:** With the easing of government restrictions, the Chinese economy is showing signs of gradual recovery in activity levels. The risk of the virus re-emerging needs to be monitored closely ◆ **India:** On 24 March, the government announced a lockdown until mid-April. A significant hit to GDP growth and global supply chains can be expected ◆ **Japan:** Economic data had already weakened significantly in Q4 2019 following a VAT tax hike and disruption caused by bad weather. COVID-19 is another major headwind for Japan's export-dependent and globally integrated economy	◆ **China:** Loosening of quarantine restrictions may help the economy get back on track. We continue to prefer Asian EM to other equity markets and retain our overweight view ◆ **India:** The long-term structural growth potential remains positive, supporting our overweight view ◆ **Japan:** Equity valuations are consistent with our overweight strategic view, but downside risks to growth and relatively constrained policy space warrants a more neutral tactical view
Other EM	◆ **Brazil:** COVID-19 and declining commodity prices will be a near to medium term headwind for economic activity ◆ **Russia:** Pre-existing sluggish growth and subdued domestic demand are now challenged further by the sharp decline in oil prices and COVID-19 disruption ◆ **MENA:** The region's economic growth prospects are not only constrained by the impact of COVID-19, but also by the substantial fall in the oil price in 2020 so far and by ongoing geopolitical risks	◆ The impact of the COVID-19 outbreak will lead to a further deterioration in EM economic activity and corporate earnings ◆ However, emerging market equities could outperform on the back of Chinese stimulus, and there remains significant policy space to help stabilise economic conditions ◆ We remain overweight EM local currency assets (EM equities and EMD in local currency), on a strategic and tactical basis

Source: HSBC Global Asset Management. As at 1 April 2020. The views expressed were held at the time of preparation, and are subject to change.

Asset class positioning

Equities

View:
▲ Overweight
↔ Neutral
▼ Underweight

View move:
– No change
↑ Upgraded versus last month
↓ Downgraded versus last month

Tactical view:
Short-term view that can temporarily override longer-term (strategic) view

Asset class	Strategic View	Rationale	Risks to consider	Tactical view	Rationale
Global	▲ –	While the COVID-19 pandemic represents a very significant challenge for the global economy, the recent sell-off has materially increased our measure of prospective returns Our measure of the global equity risk premium (excess return over cash) now looks very attractive. After the recent sharp falls in developed market government bond yields, the relative attractiveness of equities over bonds has increased further A much looser global policy setting means there is scope for a recovery in risk assets as global economic conditions stabilise	The outbreak and quick spread of COVID-19 highlights that we remain in an "age of uncertainty". What began in China as localised shock has now become a "sudden stop" in global activity Global corporate earnings growth is expected to significantly deteriorate. Volatility is likely to remain elevated whilst there are risks that containment measures create lasting damage to the supply-side of the economy	↔	Against a backdrop of high volatility and elevated uncertainty over the economic outlook, we have adopted a more cautious view on DM/global equities in the short-term
US	▲ –	COVID-19 presents big challenges to the economic outlook. However, policymakers have acted in a timely and coordinated manner. This should support an economic recovery as the disruption from the virus dissipates. Corporate earnings have also been outperforming other regions Since the sharp sell-off in March, valuations has improved substantially in our opinion. Current market pricing offers buying opportunities for investors with a long-term investment horizon	A significant US recession is now almost certain. Corporate earnings are likely to come under significant pressure and defaults will increase. The length of containment measures and the dynamics of an economic recovery remain key risks to the outlook	↔	There is significant uncertainty over the depth and duration of the impending US recession. The official US case count is the highest in the world
Eurozone	▲ –	The repricing of eurozone equities experienced in March has created very attractive prospective risk-adjusted returns The European Central Bank has been proactive and innovative in its policy approach to support bank liquidity and lending to the real economy, and has increased asset purchases. The German government has engaged in very significant fiscal easing	COVID-19 is a very substantial challenge to the eurozone's already relatively weak economic performance Co-ordinated fiscal support has been very limited. There are some political hurdles to more aggressive policy support	↔	Eurozone containment measures have been relatively strict, which will hit economic activity hard. Political hurdles to more coordinated and aggressive policy support is a challenge

Source: HSBC Global Asset Management. As at 1 April 2020. The views expressed were held at the time of preparation, and are subject to change.

Asset class positioning

Equities cont'd

Asset class	Strategic view	Rationale	Risks to consider	Tactical view	Rationale
UK	▲ —	The UK equity risk premium (excess return over cash) has substantially increased as a result of the sell-off in March and remains comfortably above that for other developed market (DM) equities The UK government and the Bank of England have introduced a comprehensive and coordinated package of economic stimulus measures aimed at supporting businesses and employment	Recession risk has significantly increased. Corporate earnings are likely to come under significant pressure and defaults will increase	↔	Uncertainty over the UK economic outlook is high. Furthermore, the sharp drop in the oil price will put additional strain on earnings of energy companies, which have a proportionally high representation in UK equity indices
Japan	▲ —	Valuations are very attractive, especially since the sharp sell-off in March In response to the COVID-19 disruption, Japanese authorities have implemented policy easing, including a sizeable fiscal stimulus package and liquidity measures/asset purchases by the Bank of Japan Large corporate cash reserves provide firms with the scope to boost dividends or engage in stock repurchases	Japan's economic growth was already weak prior to the COVID-19 outbreak Policy support is constrained relative to other countries by already ultra-low interest rates and a high government debt level/budget deficit	↔	Similar to the eurozone, economic growth was already weak prior to the crisis, and policy space is relatively constrained
Emerging Markets (EM)	▲ —	Emerging market equities tend to outperform on the back of Chinese stimulus. We continue to prefer Asian markets The structural characteristics of EM economies are better than in the past. EMs have more policy space to help stabilise economic conditions relative to developed markets. Fed policy easing and lower oil prices are significant tail-winds to many EM economies	From a valuation perspective, EM equities are not particularly cheap versus other equity markets or versus their own historical levels. Many EMs are at an earlier stage of the COVID-19 outbreak versus China The impact of the COVID-19 outbreak will lead to further deterioration in EM earnings in the coming months. We acknowledge lower oil prices is a major headwind to EM petro-economies		
CEE & Latam	↔ —	The recent sharp fall in oil and other commodity prices is a major headwind to already weak growth momentum in Latin America and Russia. CEE economies are vulnerable to a manufacturing slowdown in Europe given supply chains We think high local interest rates and sovereign yields in select countries diminish the case for bearing equity risk	The economic outlook remains fragile, with many economies dependent on a stable trade and industrial cycle outlook Geopolitical tensions remain elevated in some countries		

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Asset class positioning

Government Bonds

Asset class	Strategic view	Rationale	Positive factors to consider
Developed Markets (DM)	▼ —	After the recent rally, government bond prospective returns look very low and the market is already pricing in a very pessimistic growth scenario. DM governments are engaging in unprecedented levels of fiscal easing	Policy makers, including the Fed and the ECB, have significantly expanded their bond purchase programmes, supporting demand. Inflation is structurally subdued and should allow monetary policy to remain ultra-accommodative
		At current valuations, it is uncertain if this asset class can act as a reliable portfolio diversifier. We prefer other diversifiers	A further deterioration in the COVID-19 situation could cause additional deterioration of investor risk appetite, supporting demand for DM government bonds
US	▼ —	Prospective risk-adjusted returns look unattractive at this stage. Treasury yields have fallen sharply amid the outbreak of COVID-19. The US government is unleashing record levels of fiscal stimulus	Low inflation should continue to help cap yields. In the short-term, the demand shock from COVID-19 is likely to be deflationary in nature.
		There is uncertainty if Treasuries can act as an effective “diversifier” asset given current market pricing	A worse than expected economic impact from containment measures in the US is a possibility and the situation remains highly uncertain. Shorter-duration Treasuries benefit from better valuations
UK	▼ —	Prospective risk-adjusted returns for UK gilts continue to look very poor to us, and have deteriorated further on the month as yields have fallen. The UK government is engaging in massive fiscal stimulus	The Bank of England has introduced supportive policy measures and signalled it is ready to do more should the situation further deteriorate
Eurozone	▼ —	Eurozone government bonds are overvalued at current levels in our view. A number of eurozone governments are easing fiscal policy, especially Germany	The ECB has significantly ramped up its bond buying programme and signalled it is ready to do more
Japan	▼ —	Japanese government bonds (JGBs) are overvalued, in our view. Prospective returns have fallen on the month in line with other DMs	The “Yield Curve Control” framework should limit volatility. The risk of significantly higher yields in the near term is very limited

Asset class	Strategic View	Rationale	Risks to consider
Emerging markets (EM) local currency	▲ —	Prospective returns have increased following the recent sell-off, including declines in most EM currencies. Market pricing looks relatively attractive compared to the opportunity set	A further increase in investor risk aversion could weigh on EM assets. Diverging economic impacts from the spread of COVID-19 along with different political regimes in the EM universe also mean that being selective is key

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Asset class positioning

Investment grade corporate Bonds

Asset class	Strategic View	Rationale	Positive factors to consider	Tactical view	Rationale
Global investment grade (IG)	▼ —	Corporate fundamentals are coming under significant pressure with headwinds from the outbreak of COVID-19. Downside risk continues to be high as downgrades and defaults pick up speed Asset class valuations continue to remain relatively unattractive	Valuations have improved somewhat following the recent sell off	↔	Spreads have been rising and already reflect increasing risks of a global recession and deterioration in earnings On a tactical basis, we are more neutral, but with a defensive positioning, looking for higher quality issuers, and avoiding impacted sectors
USD investment grade	▼ —	US IG valuations are expensive and we believe there is an inadequate margin of safety against further downside risks from the outbreak of COVID-19 US IG may come under further pressure from the deterioration in corporate fundamentals	The pre-virus backdrop for US corporate fundamentals was broadly robust, with typical levels of leverage, and a healthy ability to pay debt interest expenses The Federal Reserve is set to purchase IG corporate bonds for the first time in its history while the USD2tn fiscal package includes measures to support big businesses	↔	
EUR and GBP investment grade	▼ —	EUR IG prospective returns are also relatively unattractive. Moody's expected a sharp rise in default rates in 2020 even before the outbreak of COVID-19	The ECB and the BoE have increased their net asset purchases substantially, including corporate bonds. These could be ramped up further should risks continue to mount	↔	
Asset class	**Strategic View**	**Rationale**	**Risks to consider**		
Asia investment grade	↔ —	Within the IG universe, the carry (or "return") offered by Asian credits looks attractive relative to DM in our view	A stronger US dollar poses a risk, particularly for corporates with USD denominated debt		

Source: HSBC Global Asset Management. As at 1 April 2020. The views expressed were held at the time of preparation, and are subject to change.

Asset class positioning

High-yield corporate Bonds

Asset class	Strategic View	Rationale	Risks to consider	Tactical view	Rationale
Global high-yield	▲ ↑	Recent spread movements have increased the credit risk premium – the compensation for bearing corporate default risk - to a level consistent with an overweight position We continue to prefer Asia credits to DM	There is significant uncertainty over the extent of the expected deterioration in global economic growth and corporate fundamentals	↔	Rising spreads already reflect increasing risks of a global recession and deterioration in earnings. However, downside risk continues to be high as downgrades and defaults pick up. On a tactical basis, we therefore retain our neutral stance Furthermore, we advocate a defensive positioning within high yield, looking for higher quality issuers, and avoiding impacted sectors. We are also aware of liquidity issues in the sector
US high-yield	▲ ↑	Prospective risk adjusted returns are now consistent with our overweight position	US HY credits remain vulnerable to the expected deterioration in the growth picture, falling corporate profits and the default outlook. Lower oil prices pose a significant headwind to energy names	↔	
Asia high-yield	▲ –	Asia HY offers a decent buffer against bad news given its attractive valuation against the opportunity set, including US and European HY Asian economic growth is vulnerable, although there is room for policy easing amid low inflation and borrowing costs. Many Asian economies have managed to contain the spread of COVID-19	A stronger US dollar poses a risk, particularly for corporates with USD denominated debt. Many export-dependent Asian economies are vulnerable to the deteriorating global growth picture China's macroeconomic performance and default rates need to be monitored closely		
Europe high-yield	▲ ↑	Valuations are now consistent with our overweight position Monetary policy is ultra-accommodative, while fiscal stimulus has been ramped up	Eurozone growth and underlying corporate fundamentals are likely to significantly deteriorate and default rates pick up European political risks remain. We remain neutral on a tactical basis	↔	

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Asset class positioning

Alternatives

Asset class	Strategic View	Rationale	Risks to consider
Gold	↔	Gold futures can offer reasonable diversification benefits to multi-asset portfolios and have some inflation-hedging characteristics. Gold has performed fairly well since the outbreak of COVID-19 in the context of elevated uncertainty and lower interest rates	In our view, prospective returns on gold futures look poor. This is due to a negative expected roll yield (the cost of renewing futures contracts) and a negative expected spot-price return
Other commodities	▲	Commodities are attractively priced after the recent sell off	We measure a negative expected roll yield (cost of renewing futures contracts) for many commodities (particularly natural gas, corn and wheat)
		Although demand destruction is unprecedented amid the COVID-19 outbreak, production "shut-ins" can help rebalance the market and lead to a gradual recovery in prices	Spot commodity prices remain vulnerable to the quickly deteriorating global growth picture, although this may be offset by a recovery in China (the world's biggest consumer of a number of commodities)
Real Estate	↔	COVID-19 has resulted in significant falls in real estate equity prices, which continue to be highly volatile. As a result, dividend yields on global real estate equities have risen sharply. Nonetheless, as best we can estimate during unprecedented times, we believe the market has over-discounted the negative impact that the virus will have on the market. For investors able to accept continued high volatility, we believe prospective long run returns imply a sufficient premium over extremely low policy rates	COVID-19 dominates the market. Sectors such as leisure, entertainment and many parts of the retail market are particularly exposed. Other sectors, such as logistics, are experiencing increased demand. The impact on rental growth and future dividends remains highly uncertain, particularly in the short term
EM agg bond (USD)	↔	Valuations have recently improved. An uber-dovish Fed and deteriorating US growth outlook can cap the upside risk to the USD	Exposure to vulnerable, idiosyncratic EMs weighs on the outlook. Should risk-off behaviour continue, the USD may strengthen, particularly in light of heavy demand for US dollars from international investors

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Asset class positioning

Asian assets

Asset class	Strategic View	Rationale	Positive factors to consider
EM Asian government bonds (USD)	▼ –	While a cautious Fed in the US is positive for the asset class, Asian bond spreads look particularly tight compared with other EM regions, reducing their relative attractiveness	From a long-term perspective, we believe sound economic fundamentals, stable inflation and credit quality are supportive

Asset class	Strategic View	Rationale	Risks to consider
Asia ex-Japan equities	▲ –	We think this asset class offers attractive risk-adjusted returns Economic growth in Asia has held up relatively well and macroeconomic structural characteristics are better than in other EM regions We think Asian currencies are set to appreciate in the medium term. Overall, we prefer EM Asian equities to other parts of EM	It will be important to monitor the impact of a slowdown in China and a possible global recession in profits A sharp rise in the US dollar is a risk Other risks include US protectionist policies, geopolitical events, commodity-price and/or currency volatility
China equities	▲ –	China is recovering from its supply chain disruptions due to the impacts from COVID-19 containment measures, with an accelerated pace of factory-reopening and resumption of work since mid-February. A gradual normalisation in activities is expected into Q2 assuming the contagion situation remains under control Fiscal, monetary, credit and regulatory policy support has been ramped up to mitigate the COVID-19 impacts on the economy and markets. More easing is likely to shore up confidence and boost domestic consumption and investment Potential catalysts include further opening up of the economy, capital market liberalisation, as well as a range of market structure reforms	Having resumed production, Chinese businesses still face subdued near term domestic demand and the threat of falling exports due to a sharp global growth slowdown which could also lead to disruption of global supply chains. The impact on the labour market and consumption outlook remain concerns. An expected recovery in Q2/H2 is likely to be insufficient to fully offset the large negative shock in Q1, leaving a materially slower 2020 growth versus 2019 Policy space is limited by weaker fiscal positions, high debt levels and falling credit efficiency. Problems at small banks have impeded credit channels. US-China relations and other geopolitical risks remain concerns

Source: HSBC Global Asset Management. As at 1 April 2020. The views expressed were held at the time of preparation, and are subject to change.

Asset class positioning

Asian assets cont'd

Asset class	Strategic View	Rationale	Risks to consider	Tactical view	Rationale
India equities	▲	A comprehensive package of monetary and credit policy stimulus, combined with fiscal relief measures to cushion the economic fallout of the COVID-19 pandemic and 21-day nationwide lockdown, may help the post-pandemic recovery once the disruptions are behind us Lower oil prices and India's relatively limited integration into global value chains may be mitigating factors. The long-term structural story remains positive with substantial progress on reforms	The COVID-19 pandemic and lockdown pose material downside risks to the near-term economic and earnings outlook. The already weak financial sector faces asset quality risks The risk of substantial fiscal slippage looms large, despite some offset from the hikes to excise duty on retail fuel products The government's ability to undertake tough reforms (e.g. land, labour) is to be tested		
Hong Kong equities	▲	The government has announced a highly expansionary 2020-21 budget with a massive counter-cyclical package, aimed at mitigating the disruption to near-term growth from the COVID-19 outbreak A decent dividend yield is supportive. Accommodative global monetary policy settings alleviate some pressure on HK interest rates. Liquidity conditions in HK remain abundant. Financial system appears sound	HK, as a small, open and services-oriented economy is vulnerable to economic shocks from the COVID-19 pandemic, as well as any tightening of global financial conditions Corporate earnings face downside risks. We see the risk of a gradual structural weakening of HK's economic fundamentals, fiscal position and investment climate	↔	Hong Kong's economy is likely to see a significant recession in H1. The economic outlook is very uncertain.
Singapore equities	▲	Valuations are attractive and a high dividend yield helps limit the downside A large fiscal impulse could provide a backstop to the economic shocks of the pandemic and social distancing policies and cross-border travel restrictions. This is complemented by monetary and regulatory support	Singapore is among the more vulnerable economies in Asia to the global pandemic. A recession is likely with the economy's starting conditions for 2020 already relatively weak Tightening market liquidity and sharp moves in the USD remain risks		

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Asset class positioning

Asian assets cont'd

Asset class	Strategic view	Rationale	Risks to consider
South Korea equities	▲	A significant fiscal stimulus coupled with emergency liquidity/funding support and measures to stabilize financial markets should help the economy withstand the pandemic shock and mitigate the corporate earnings impact At least so far, the contagion situation in Korea looks under control, even with the relatively benign containment policy through targeted quarantine policy and active testing. This could pave the way for some gradual activity normalisation	The COVID-19 pandemic poses significant downside risks to the near-term economic outlook and corporate earnings prospects, mainly through global demand and supply chain disruptions and domestic demand destruction Slowing globalisation and geopolitical risks remain concerns. Korea faces structural headwinds from rising labour costs amid tighter regulation and an aging demographic structure, as well as a high household-debt level
Taiwan equities	▲	A relatively high dividend yield offers support. An eventual recovery in the tech product cycle post the COVID-19 pandemic disruptions and lower oil prices may be supportive, despite uncertainties about the virus developments Taiwan has taken a proactive approach on fighting the COVID-19 and the containment measures are relatively benign (e.g. no lockdown at least so far). Fiscal relief and accommodative macro policies provide some growth cushion	The risk of a global/US recession driven by the COVID-19 pandemic shock poses significant downside risks to Taiwan's economic outlook and corporate earnings prospects. Trade protectionism and other geopolitical risks remain concerns. Taiwan is excluded from regional trade/investment agreements Valuations of Taiwanese equities are not particularly attractive to us. Taiwan also faces structural headwinds such as unfavourable demographics

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Market data

March 2020

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)	442	-13.7	-21.7	-13.0	-21.7	581	379	14.7
North America								
US Dow Jones Industrial Average	21,917	-13.7	-23.2	-15.5	-23.2	29,569	18,214	15.7
US S&P 500 Index	2,585	-12.5	-20.0	-8.8	-20.0	3,394	2,192	16.5
US NASDAQ Composite Index	7,700	-10.1	-14.2	-0.4	-14.2	9,838	6,631	23.0
Canada S&P/TSX Composite Index	13,379	-17.7	-21.6	-16.9	-21.6	17,971	11,173	14.3
Europe								
MSCI AC Europe (USD)	363	-15.0	-25.3	-18.2	-25.3	492	307	12.9
Euro STOXX 50 Index	2,787	-16.3	-25.6	-16.9	-25.6	3,867	2,303	12.1
UK FTSE 100 Index	5,672	-13.8	-24.8	-22.1	-24.8	7,727	4,899	11.6
Germany DAX Index*	9,936	-16.4	-25.0	-13.8	-25.0	13,795	8,256	12.0
France CAC-40 Index	4,396	-17.2	-26.5	-17.8	-17.8	6,111	3,632	12.5
Spain IBEX 35 Index	6,785	-22.2	-28.9	-26.6	-26.6	10,100	5,815	10.2
Italy FTSE MIB	17,051	-22.4	-27.5	-19.9	-27.5	25,483	14,153	9.9
Asia Pacific								
MSCI AC Asia Pacific ex Japan (USD)	436	-14.3	-21.1	-17.6	-21.1	575	384	12.8
Japan Nikkei-225 Stock Average	18,917	-10.5	-20.0	-10.8	-20.0	24,116	16,358	14.8
Australian Stock Exchange 200	5,077	-21.2	-24.0	-17.9	-24.0	7,197	4,403	15.1
Hong Kong Hang Seng Index	23,603	-9.7	-16.3	-18.8	-16.3	30,280	21,139	9.5
Shanghai Stock Exchange Composite Index	2,750	-4.5	-9.8	-11.0	-9.8	3,288	2,647	10.3
Hang Seng China Enterprises Index	9,595	-6.9	-14.1	-15.7	-14.1	11,882	8,290	7.7
Taiwan TAIEX Index	9,708	-14.0	-19.1	-8.8	-19.1	12,198	8,524	13.8
Korea KOSPI Index	1,755	-11.7	-20.2	-18.0	-20.2	2,277	1,439	10.0
India SENSEX 30 Index	29,468	-23.1	-28.6	-23.8	-28.6	42,274	25,639	15.5
Indonesia Jakarta Stock Price Index	4,539	-16.8	-27.9	-29.8	-27.9	6,636	3,912	10.4
Malaysia Kuala Lumpur Composite Index	1,351	-8.9	-15.0	-17.8	-15.0	1,695	1,208	14.5
Philippines Stock Exchange PSE Index	5,321	-21.6	-31.9	-32.8	-31.9	8,420	4,039	11.0
Singapore FTSE Straits Times Index	2,481	-17.6	-23.0	-22.8	-23.0	3,415	2,208	10.7
Thailand SET Index	1,126	-16.0	-28.7	-31.3	-28.7	1,748	969	13.3
Latam								
Argentina Merval Index	24,384	-30.3	-41.5	-27.1	-41.5	44,471	22,061	3.0
Brazil Bovespa Index*	73,020	-29.9	-36.9	-23.5	-36.9	119,593	61,691	10.1
Chile IPSA Index	3,487	-15.4	-25.3	-33.7	-25.3	5,290	2,851	11.1
Colombia COLCAP Index	1,124	-27.5	-32.4	-29.2	-32.4	1,682	881	8.3
Mexico S&P/BMV IPC Index	34,555	-16.4	-20.6	-20.2	-20.6	45,955	32,647	11.3
EEMEA								
Russia MOEX Index	2,509	-9.9	-17.6	0.5	-17.6	3,227	2,074	6.4
South Africa JSE Index	44,490	-12.8	-22.1	-21.2	-22.1	59,545	37,178	8.9
Turkey ISE 100 Index*	89,644	-15.4	-21.7	-4.4	-21.7	124,537	81,936	4.9

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

Sources: Bloomberg, HSBC Global Asset Management. Data as at close of business 31 March 2020.

Past performance is not an indication of future returns.

Market data (continued)

March 2020

Equity Indices - Total Return	3-month Change (%)	YTD Change (%)	1-year Change (%)	3-year Change (%)	5-year Change (%)	Dividend Yield (%)
Global equities	-21.4	-21.4	-11.3	4.6	15.1	3.0
US equities	-19.8	-19.8	-7.7	13.9	33.3	2.3
Europe equities	-24.3	-24.3	-15.5	-6.9	-6.4	4.5
Asia Pacific ex Japan equities	-20.7	-20.7	-15.2	-1.3	3.2	3.5
Japan equities	-16.8	-16.8	-6.7	2.9	9.4	2.7
Latam equities	-45.6	-45.6	-40.8	-34.1	-26.2	4.7
Emerging Markets equities	-23.6	-23.6	-17.7	-4.8	-1.8	3.3

All total returns quoted in USD terms.

Data sourced from MSCI AC World Total Return Index, MSCI USA Total Return Index, MSCI AC Europe Total Return Index, MSCI AC Asia Pacific ex Japan Total Return Index, MSCI Japan Total Return Index, MSCI Latam Total Return Index and MSCI Emerging Markets Total Return Index.

Bond indices - Total Return	Close	MTD Change (%)	3-month Change (%)	1-year Change (%)	YTD Change (%)
BarCap GlobalAgg (Hedged in USD)	575	-1.6	1.4	6.6	1.4
JPM EMBI Global	778	-12.6	-11.8	-5.3	-11.8
BarCap US Corporate Index (USD)	3,123	-7.1	-3.6	5.0	-3.6
BarCap Euro Corporate Index (Eur)	243	-6.8	-6.2	-3.4	-6.2
BarCap Global High Yield (USD)	442	-13.4	-14.5	-9.2	-14.5
BarCap US High Yield (USD)	1906	-11.5	-12.7	-6.9	-12.7
BarCap pan-European High Yield (USD)	410	-13.1	-14.1	-7.0	-14.1
BarCap EM Debt Hard Currency	396	-10.4	-9.5	-3.3	-9.5
Markit iBoxx Asia ex-Japan Bond Index (USD)	207	-5.9	-3.7	1.7	-3.7
Markit iBoxx Asia ex-Japan High-Yield Bond Index (USD)	242	-12.0	-11.6	-7.7	-11.6

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

Sources: Bloomberg, HSBC Global Asset Management. Data as at close of business 31 March 2020.

Past performance is not an indication of future returns.

Market data (continued)

March 2020

Bonds	Close	End of last mth.	3-months Ago	1-year Ago	Year End 2019
US Treasury yields (%)					
3-Month	0.06	1.27	1.54	2.38	1.54
2-Year	0.25	0.91	1.57	2.26	1.57
5-Year	0.38	0.94	1.69	2.23	1.69
10-Year	0.67	1.15	1.92	2.41	1.92
30-Year	1.32	1.68	2.39	2.81	2.39
Developed market 10-year bond yields (%)					
Japan	0.01	-0.16	-0.02	-0.09	-0.02
UK	0.35	0.44	0.82	1.00	0.82
Germany	-0.47	-0.61	-0.19	-0.07	-0.19
France	-0.02	-0.29	0.12	0.32	0.12
Italy	1.52	1.10	1.41	2.49	1.41
Spain	0.67	0.28	0.46	1.09	0.46

Commodities	Latest	MTD Change (%)	3-month Change (%)	1-year Change (%)	YTD Change (%)	52-week High	52-week Low
Gold	1,577	-0.5	3.9	22.0	3.9	1,703	1,266
Brent Oil	22.7	-55.0	-65.5	-66.7	-65.5	76	22
WTI Crude Oil	20.5	-54.2	-66.5	-65.9	-66.5	67	19
R/J CRB Futures Index	122	-23.6	-34.4	-33.7	-34.4	190	120
LME Copper	4,951	-12.1	-19.8	-23.6	-19.8	6,609	4,371

Sources: Bloomberg, HSBC Global Asset Management. Data as at close of business 31 March 2020.

Past performance is not an indication of future returns.

Market data (continued)

March 2020

Currencies (vs USD)	Latest	End of last mth.	3-mths Ago	1-year Ago	Year End 2019	52-week High	52-week Low
Developed markets							
DXY index	99.05	98.13	96.39	97.28	96.39	102.99	94.65
EUR/USD	1.10	1.10	1.12	1.12	1.12	1.15	1.06
GBP/USD	1.24	1.28	1.33	1.30	1.33	1.35	1.14
CHF/USD	1.04	1.04	1.03	1.00	1.03	1.09	0.98
CAD	1.41	1.34	1.30	1.33	1.30	1.47	1.30
JPY	107.5	107.9	108.6	110.9	108.6	112.4	101.2
AUD	1.63	1.54	1.43	1.41	1.43	1.81	1.39
NZD	1.68	1.60	1.49	1.47	1.49	1.83	1.47
Asia							
HKD	7.75	7.79	7.79	7.85	7.79	7.85	7.75
CNY	7.08	6.99	6.96	6.71	6.96	7.19	6.68
INR	75.63	72.18	71.38	69.16	71.38	76.33	68.29
MYR	4.32	4.22	4.09	4.08	4.09	4.45	4.05
KRW	1,219	1,215	1,156	1,135	1,156	1,294	1,132
TWD	30.26	30.29	29.99	30.83	29.99	31.73	29.85
Latam							
BRL	5.21	4.47	4.02	3.92	4.02	5.25	3.72
COP	4,065	3,524	3,287	3,189	3,287	4,237	3,093
MXN	23.67	19.64	18.93	19.43	18.93	25.46	18.52
ARS	64.40	62.21	59.87	43.32	59.87	64.49	41.35
EEMEA							
RUB	78.58	66.84	61.95	65.76	61.95	82.87	60.88
ZAR	17.84	15.66	14.00	14.50	14.00	18.09	13.81

Sources: Bloomberg, HSBC Global Asset Management. Data as at close of business 31 March 2020.

Past performance is not an indication of future returns.

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

- Views are based on regional HSBC Global Asset Management Asset Allocation meetings held throughout **March 2020**, HSBC Global Asset Management's long-term expected return forecasts which were generated as **at 28 February 2020**, 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.
- "*Neutra*l" implies that, within the context of a well-diversified typically multi-asset portfolio, and relative to relevant internal or external benchmarks HSBC Global Asset Management has (or would have) neither a particularly negative or positive tilt towards the asset class.
- For global investment-grade corporate bonds, the underweight, overweight and neutral categories for the asset class at the aggregate level are also based on high-level asset allocation considerations applied in diversified, typically multi-asset portfolios. However, USD investment-grade corporate bonds and EUR and GBP investment-grade corporate bonds are determined relative to the global investment-grade corporate bond universe.
- For Asia ex Japan equities, the underweight, overweight and neutral categories for the region at the aggregate level are also based on high-level asset allocation considerations applied in diversified, typically multi-asset portfolios. However, individual country views are determined relative to the Asia ex Japan equities universe as of **28 February 2020.**
- Similarly, for EM government bonds, the underweight, overweight and neutral categories for the asset class at the aggregate level are also based on high-level asset allocation considerations applied in diversified, typically multi-asset portfolios. However, EM Asian Fixed income views are determined relative to the EM government bonds (hard currency) universe as of **31 March 2020**.

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Expiry: End of Quarter