Riding the storm

Global Investment Strategy

September 2019

HSBC
Global Asset
Management

For professional investors only. Not for further distribution

Contents

Overview: Riding the storm

Investment returns have been strong across the board in 2019 so far. Fixed income asset classes are up around 10%, and equity markets and alternatives have done even better. But it hasn't felt like a bull market environment for investors – in fact, it's felt like the opposite.

All year analysts have fretted – wrongly, in our view – over an imminent recession. And growth fears reached new heights over the summer period. Cyclical weakness in manufacturing could, it is argued, seep rapidly into the rest of the economy, and infect the whole system. Meanwhile, political uncertainty has been pervasive, and shows few signs of diminishing. And policy makers are accused of being "out of ideas" and "out of ammo". So, as yield curves invert and a third of global bonds trade on negative interest rates, the signals look ominous.

How do we navigate this storm of uncertainty? As always, it's important to understand not just how the macro environment is evolving, but also what macro scenario is being discounted by the market.

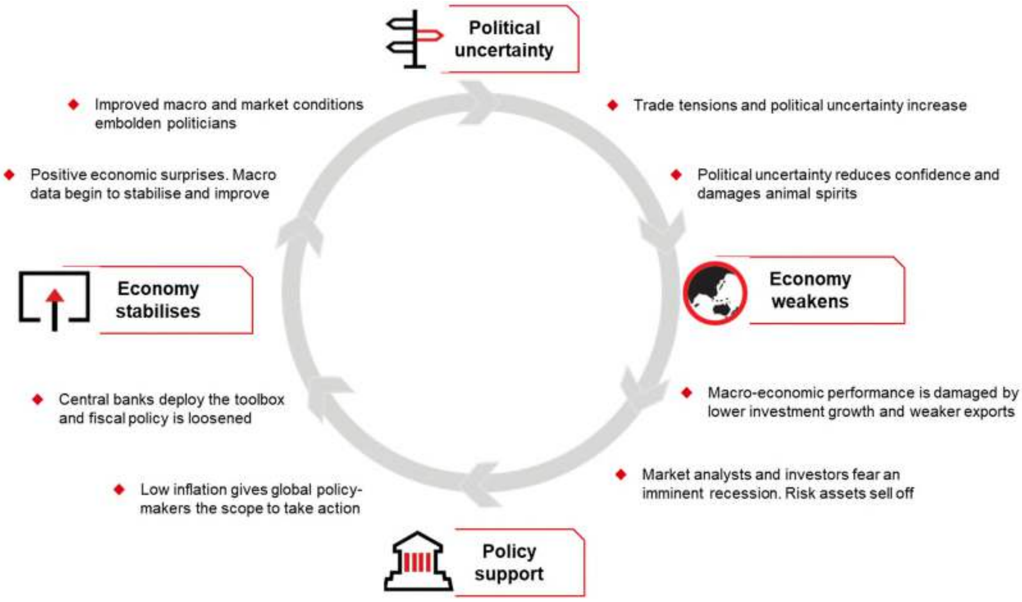
The fundamental outlook remains tricky. Political uncertainty has imposed an economic cost. Our Nowcast – a big data economic model – indicates that global growth is running just above 2%. This is not strong, but it looks broadly stable. We believe we are in the "cyclical slowdown" phase of the economic cycle – growth and profits are coming under pressure, but are not yet compromised. Global labour markets and services sectors remain firm.

Importantly, there is a concerted effort underway to ease policy in the US, China and Europe. Low inflation gives policy makers a free-hit to focus on stabilising the macro cycle and revitalise animal spirits. Of course, we have to be realistic about what policy stimulus can achieve – we shouldn't expect a return to the "Goldilocks economy" of 2017- early 2018. But – critically – policy activism is largely pre-emptive and insures us against the worst macro outcomes.

As we move into Q4 we are still in the "political-economy cycle" (figure 1) that has characterised much of the year so far. As investors we need to continue to "ride out the storm". Despite the uncertainties, asset class returns have been strong year-to-date. Looking-forward, our baseline macro scenario is not that optimistic; it is one of rather subdued growth, little inflation, and "lower for even longer" interest rates. But against that, the market is already betting on a recession, assuming policy will be ineffective, and pricing a profits collapse.

It is a "bull market in pessimism" and, versus that, our cautious macro outlook is relatively optimistic. That means that a "pro-risk, but conservative" investment strategy continues to make sense.

Figure 1: Current macro dynamics - "the political economy cycle"



Source: HSBC Global Asset Management, as at September 2019

The global economic environment

US economic leadership versus lagging Europe and Japan

What is a Nowcast?

A systematic approach to measuring where we are in the economic cycle in "real-time". It is not a forecast. Our algorithm builds a measure of growth based on more than 1,000 key macroeconomic variables.

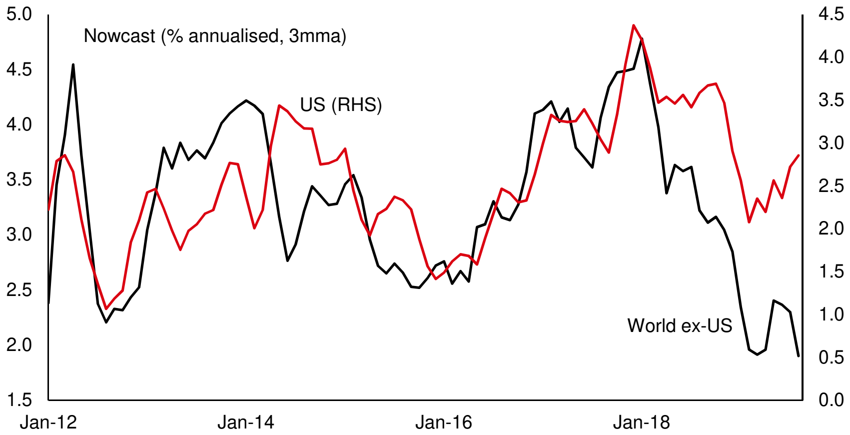
Unbalanced global growth

After slowing through 2018 and early 2019, our global Nowcast (big data economic model) has stabilised at just over 2% growth annualised. Within that, there is a clear division between US growth, which remains above trend, and growth elsewhere, which is materially below the levels seen in recent years (figure 2).

But although US growth is off its 2018 highs, we think it is still running at a solid pace of 2.5-3.0% annualised. Can this pace be sustained? There are a number of threats: (i) the boost from tax cuts continues to fade, (ii) ex-US growth remains soft, (iii), geopolitical uncertainty looks to be weighing on business confidence and activity, and (iv), historically-reliable leading indicators (such as the ISMs) point to a further moderation of growth.

More positively, the US consumer remains in good health with confidence elevated and incomes growing at a solid pace, supported by still-robust employment growth. Consumer spending is the mainstay of US growth and arguably dragging a lacklustre global economy along with it.

Figure 2: Nowcast evolution – tentative signs of stabilisation, US outperforming



Source: HSBC Global Asset Management, as at September 2019

Macro backdrop means "lower for even longer" interest rates

Pre-emptive policy

While we expect the US economy to slow, our base case is that still-modest US inflation and uncomfortably low inflation expectations mean the Fed is willing and able to ease policy further, and prevent US growth dropping significantly below trend.

Importantly, the Fed's approach to policy is changing and makes it more willing to err on the side of lower interest rates. Specifically:

- It has emphasised the symmetry of the inflation target, implying that after a prolonged period of below-target inflation, a period of above-target inflation is acceptable, or even desirable
- The Fed does not have enough conventional policy ammunition to allow growth to weaken meaningfully before then acting forcibly to push the economy back onto a sustainable path. Instead, it needs to be more pre-emptive and set policy to lean against emerging downside risks

Having cut the funds rate by 25bp in July and September, the market expects the Fed to deliver a further 25bp of easing this year and around 50bp next year. Market pricing for the remainder of 2019 looks reasonable, but expectations for the funds rate to drop below 1.50% next year are likely to require US growth to slow decisively below the Fed's forecast of 2.0%.

We think the market may, in fact, be pricing the average of two binary scenarios; one in which the economy continues to grow at a reasonable pace, and one where downside risks materialise, and the Fed needs to cut aggressively.

China turning?

Elsewhere, cyclical weakness is notably more pronounced, albeit in most cases no longer intensifying.

Signs of cyclical improvement in China

China has seen some modest signs of improvement with the Nowcast picking up slightly. Previous policy easing measures should continue to support growth – the credit impulse (the change in the pace of credit growth, which leads some Chinese and global activity indicators) is trending higher.

In our view, if macro conditions were to weaken again, the authorities would also step in to stabilise the situation. In line with this, the State Council recently signalled that policy easing would continue and intensify, and the PBoC cut banks' required reserve ratio by 50bp. However, we view the policy strategy as being more about risk management, rather than aiming to generate a strong cyclical upswing.

Pre-emptive policy easing in China and other EMs

Wider emerging market growth also shows some signs of stabilisation, or at least a slower pace of deterioration. This seems to be linked to the macro developments in China, the significant reduction in US bond yields during 2019, as well as cuts in domestic EM policy rates (e.g. all of the major EMs have cut rates - Brazil and India have cut by more than 100bp since Q2).

Draghi's leaving present

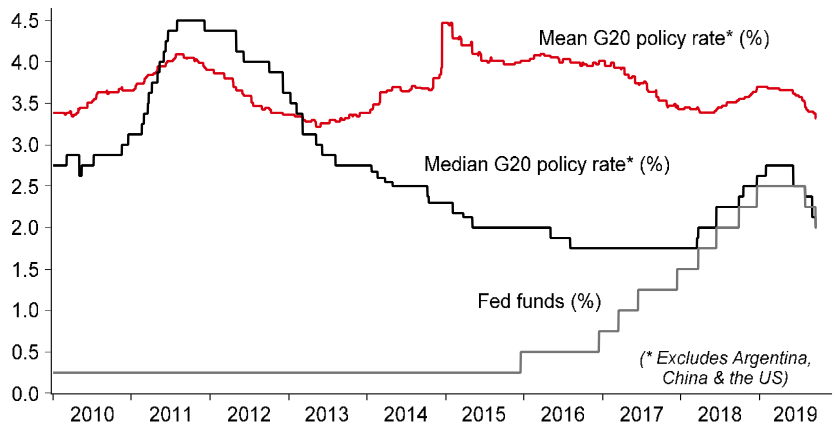
The eurozone is the underperformer among the major economies. Our European Nowcast has continued to slow on the back of weak industrial and trade data, with Germany in particular at risk of a technical recession. Other eurozone economies have seen growth soften but have held up better than Germany, most likely reflecting a smaller exposure to the global manufacturing cycle and the auto sector.

Can ECB's new policies support bank profitability and boost the macro outlook?

The poor growth performance and persistently low eurozone inflation rate (core inflation stuck around 1%) spurred the ECB into action. At the September meeting, outgoing ECB President Draghi announced a restart of QE (less than a year after ending it). There were a raft of other policy initiatives too: the deposit rate was cut by 10bp to -0.50%; there was a commitment to keeping policy at current levels until inflation is rising again ("forward guidance"); as well as more favourable TLTROs (Targeted Long Term Refinancing Operations); and a tiering of the deposit rate (to allow banks to avoid the penalty of negative rates on their ECB deposits).

It is a complex set of policy measures specifically focussed to help banking sector profitability and the European macro-economy.

Figure 3: Synchronised policy easing



Source: HSBC Global Asset Management, as at September 2019
Past performance is no guarantee of future results.

A key issue for investors is how effective this policy action will be?

Economists think further easing will have little economic impact since risk-free rates are already exceptionally low, and bund yields are negative all the way out to the 30-year maturity. However, in our view, the policies aimed at the banking sector are an important policy innovation. Banks may now be able to borrow from the ECB at less than they deposit (assuming they control excess reserves and keep lending up).

If the ECB can deliver a little bit more monetary easing and simultaneously reduce the cost of equity for the banking sector, then the odds on policy success increase materially. However, even then, modest growth and a slow increase in price pressures is probably the best that can be expected for the time being.

Cyclical slowdown, not a growth recession

Low inflation means policy easing can support the macro cycle

Globally, the picture is one of unimpressive growth, particularly outside of the US. The system is still quite vulnerable to adverse shocks. But the hysteria in the market around an imminent recession is also over-played, based on our macro analysis.

Critically, the lack of inflation allows central banks to ease policy to support their economies. That means that current, modest global growth can be maintained.

Politics and profits are the key risks

As always, a number of risks cloud the outlook. But it is the model of the "political economy cycle" (see figure 1) that we are most focussed on at present in our risk impact analysis. Specifically, we wonder how (or if) ever-intensifying political tensions could overwhelm the outlook for growth – either by damaging the macro system directly, or via collapsing corporate fundamentals (see figure 4).

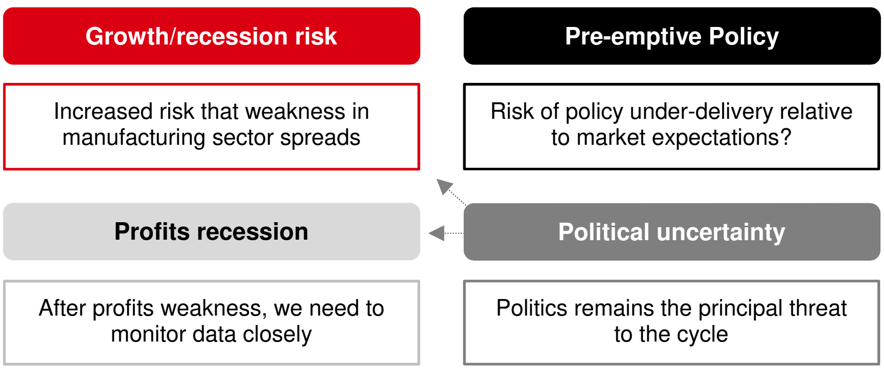
Key risk: Can the "political economy cycle" continue to hold? …Or will political uncertainty overwhelm the macro system?

After a short-lived truce at the G20 meeting in June, US-China tariffs were unexpectedly raised through the summer. If tariffs are increased further so all US imports from China are subject to 25-30% duties, monetary policy may be unable to prevent a material slowdown in the US and China. And this would spill-over into the wider global economy.

Profits are an important leading indicator of growth and the labour market. We've already seen corporate profit weakness in Asian markets during H1 2019, but there has also now been a significant downward revision in US "macro profits" from the national accounts.

At this point, we need to be very watchful for a continued decline in profitability. This would necessitate aggressive cost-cutting in the corporate sector, potentially undermining employment and household spending. With US growth heavily dependent on consumer spending at present – and global growth bright-spots relying heavily on services sector performance – such a chain of events could tip the US and global economies into recession.

Figure 4: Key risks



Source: HSBC Global Asset Management, as at September 2019

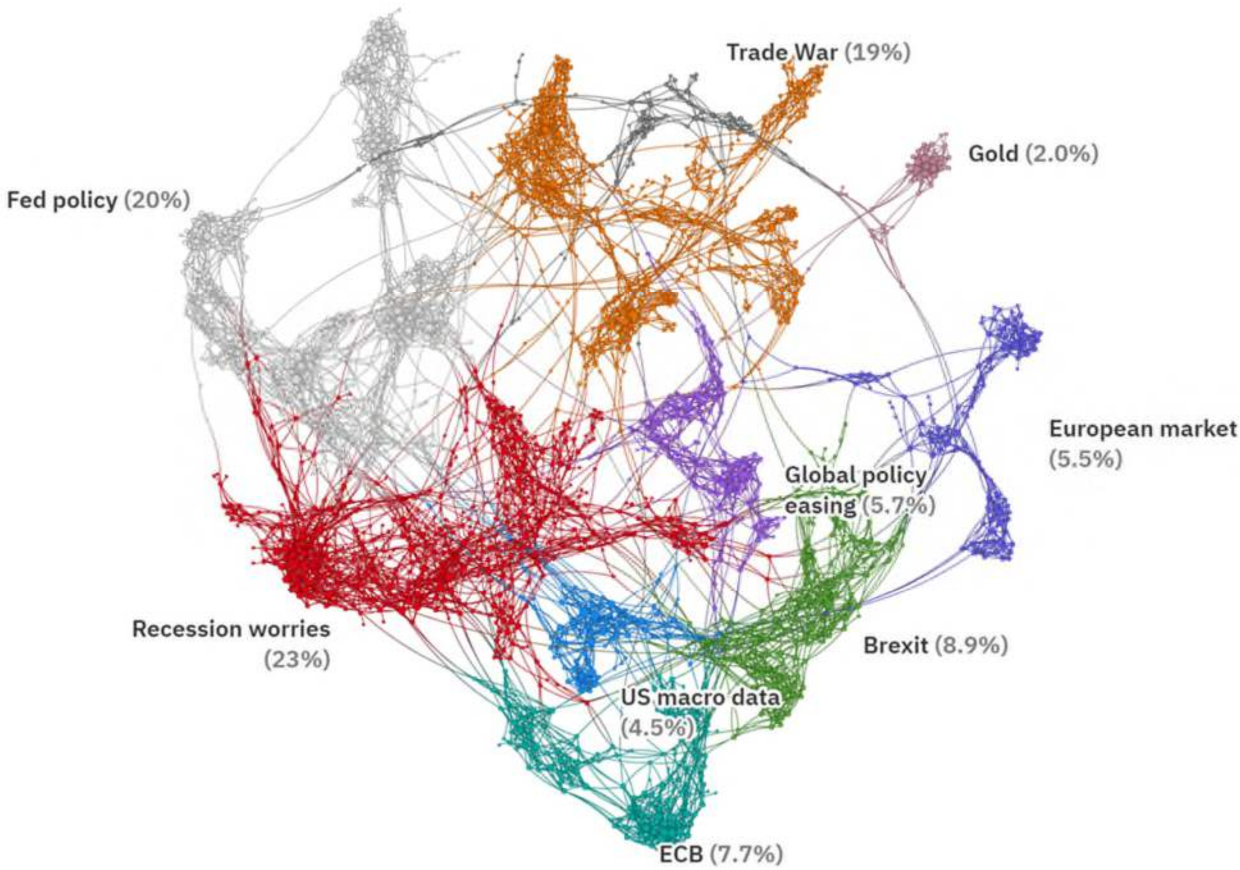
The market narrative

A structured way to track market narratives and sentiment

One approach we use to understand what the market is discounting is to monitor market narratives. Topics or risks that are “front of mind” are often already reflected in current pricing, so more news about them may have a limited impact on prices. On the other hand, topics that the market is neglecting might impact prices significantly as they will “surprise” investors.

Data science provides us with the analytical tools. We use Natural Language Processing and Machine Learning techniques to analyse thousands of financial news articles and build a network map that shows news articles clustered by primary themes (narratives). In this way, we can see what is “top of mind”, and how each cluster interacts and influences others.

Market Narrative Map



Source: HSBC Global Asset Management and Quid, as at September 2019

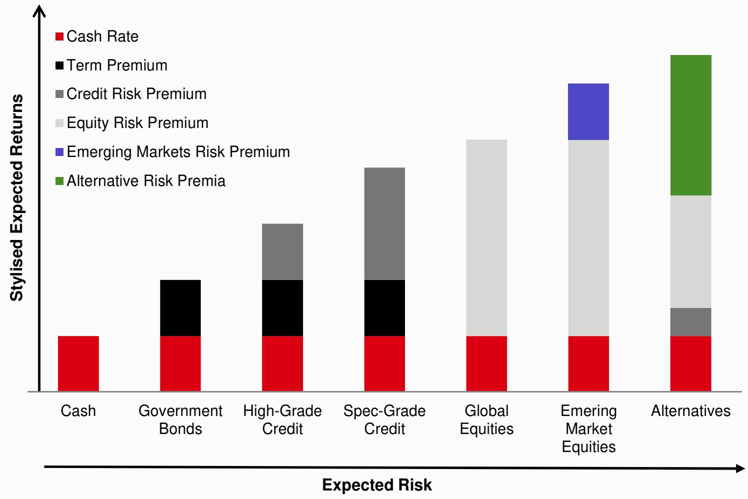
What are the key current themes in the market?

- The key narratives dominating financial news are: (i) the Fed’s policy stance, (ii) the ongoing trade tensions, and (iii), global recession fears
- Current media attention (i.e. the percentage of news talking about a particular topic) to the Fed - and what it will do next - is at its highest level of the year. The Fed’s policy stance is a central and highly influential narrative at the moment
- Interestingly, this narrative is more “connected” to the trade war than it is to news around US macro data. Conversations about Fed rate cuts today tend to be more around trade conflicts and its effects, rather than growth data or inflation
- News on the US-China trade war has dominated the news cycle; media attention today is at similar levels to the highest seen in 2018. Are we now at “peak” levels in the narrative cycle around trade?
- Within the trade war narrative there is a small but growing number of stories talking about a “currency war”. For the time being, it is too small to be influential, but it is worth monitoring its evolution
- Throughout the year the narrative of “recession worries” has gained momentum (especially after the US yield curve inverted). “Recession” is currently a central theme that is connected to most other narratives
- Amount of stories about the ECB and Brexit have been high, but they are not very influential to the overall network today

Measuring market-implied risk premia

The risk premium framework

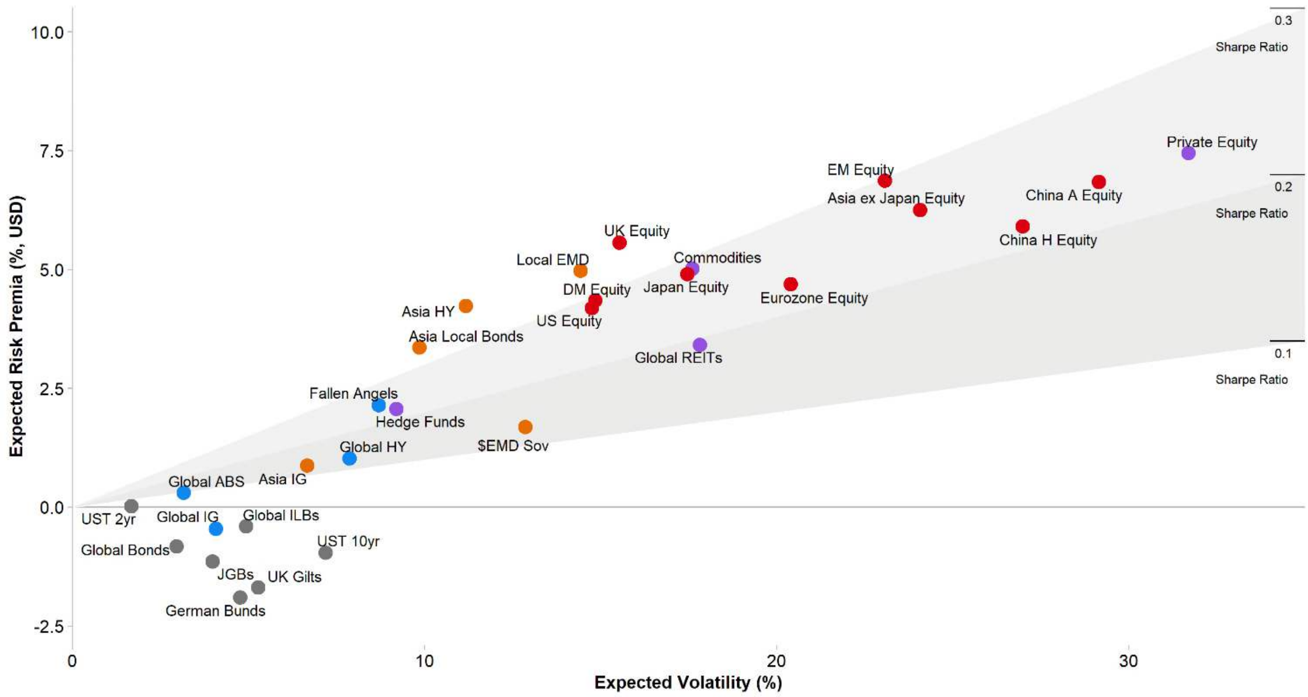
- We have developed a systematic and integrated framework for assessing asset-class attractiveness across the entire opportunity set
- Starting with a scenario for cash rates, we add to each asset class our estimates of the market-implied reward of bearing specific asset-class risk (e.g. risk premium)
- This build-up of cash rates plus risk premia produce our measure of expected returns (e.g. asset-class valuation)
- Risk premia change over time, so we need to frequently update our market-implied reward for taking risk



Source: HSBC Global Asset Management, as at September 2019.

The pecking order of asset classes

- The chart below shows the expected risk premium (the excess return over cash) in USD terms for a range of asset classes in our investment universe. These are plotted against adjusted historic data on volatility as a proxy for risk.
- After the rally in global government bonds, the bond risk premium has turned markedly negative. Investors are being asked to pay a very high price for traditional safety asset classes.
- EM bonds, in particular local EM debt and USD Asia high yield corporate bonds, are relatively attractive priced. Elsewhere in credits, the risk premia are broadly in-line with our sense of fair value.
- Meanwhile, global equities are offering attractive-looking risk premia, especially if we compare those market-implied risk premia versus global bonds. In some parts of the equity space, valuations appear outright cheap (e.g. UK equities).



Source: HSBC Global Asset Management and Bloomberg, as at September 2019. Global Fixed Income assets are shown hedged to USD. Local EM debt, Equity and Alternatives assets are shown unhedged in USD.
Any forecast, projection or target contained in this document is indicative only and is not guaranteed in any way.

Global bonds

A bull market in pessimism… and in global bonds

The stars aligned for a bond rally

The "bull market in pessimism" has resulted in strong gains for bonds this year – US treasuries, global bonds and index-linked bond indices are all up around 10%. A number of factors have aligned for global bonds this year: (i) the shift in monetary policy towards "lower for even longer" rates, (ii) subdued global inflation, (iii) disappointing economic growth that has sparked recession worries, and (iv), an "extreme risk aversion" linked to political uncertainty.

This combination of factors has pushed yields to a point where the US yield curve inverted (long-dated bond yields were lower than short-dated bond yields). Today, US 10-year treasury yields are 100bp lower than at the start of the year. And, the entire yield curve in Germany is at negative interest rates.

A lot of bad news is in the price

Can yields fall further in the short term? It is hard to know. Certainly investors continue to see the outlook as being heavily skewed toward lower bond yields. The collective psychology of investors remains very bearish, and it is much easier to think of reasons for bond yields to fall further, rather than rise. This prevailing pessimism is not totally unwarranted either, as we discussed above (see page 3). And, as explained, we don't think the economic scenario is going to change dramatically in the near-term; global growth trends remain quite weak, risks abound, and inflationary pressures are muted.

But an awful lot of bad news about the macro-economy is being baked into current bond market pricing. From here, prospective returns look very poor and, if current macro worries do not fully materialise, bond returns could be very disappointing.

The bond risk premium is very negative

Stretched valuations versus bond market momentum

Figure 5 shows our measure of the bond risk premium (the compensation for duration risk). Bonds look very expensive, but they do have good price momentum.

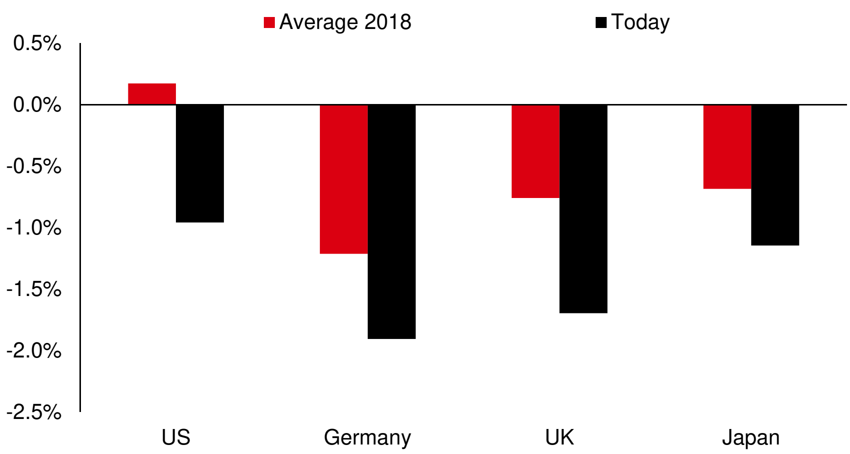
We suspect that a significant portion of recent bond price action is not actually linked to a rational re-appraisal of macro fundamentals, but is more connected to investor herding behaviour. Macro trends just haven't shifted that much over the summer. If that's right, recent trends could reverse relatively quickly.

Prefer short-duration, index-linked, and "exotic diversification"

For asset allocators, the main motivation to own long-term bonds today is because of their hedging properties against recession or market risk-off scenarios. The problem, however, is that investors are being asked to pay a very high price for this portfolio insurance. In our view, the price is just too high.

Instead, we think it makes more sense to look at other diversifiers: (i) short-duration strategies; (ii) index-linked bonds given how "neglected" inflation risk is today; (iii) or "exotic diversification" like emerging markets or liquid alternatives.

Figure 5: Prospective bond risk premia (future excess returns over cash)



Source: HSBC Global Asset Management, as at September 2019.
Past performance is no guarantee of future results.

Global credits

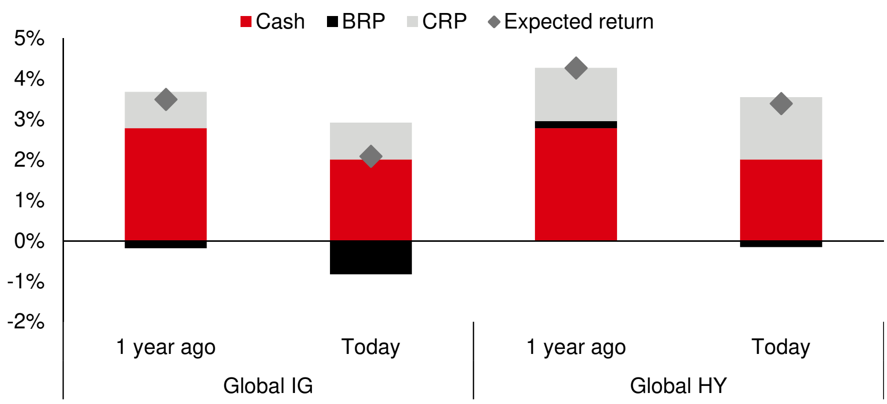
Fair credits versus expensive rates

Duration risk is a drag on prospective returns

Like government bonds, global credits have performed very well this year; investment grade (IG) credits are up over 10% in total return terms and high-yield (HY) and hard-currency EM bonds are only slightly behind. Within that, it is important to understand that falling government bond yields have been the principal return driver. Even after the rally, spreads in IG and HY credits are at least as good as this time last year.

This situation creates a challenge for investors. On one hand, the credit risk premium looks reasonable, and neutrally-placed relative to both historical experience and our sense of fair value. On the other hand, the negative bond risk premium is a material drag on prospective total returns to credits at this point.

Figure 6: Expected return decomposition by risk premium



Source: HSBC Global Asset Management and Bloomberg, as at September 2019.
Any forecast, projection or target contained in this document is indicative only and is not guaranteed in any way.

Credit fundamentals beginning to come under pressure

Default setting

What's more, corporate fundamentals have begun to come under pressure amid the backdrop of slowing global growth, falling profits, and political uncertainty. We can see this by looking at the "rating drift" for global credits (the difference between credit rating downgrades and upgrades). It has trended lower over the last year and recently has turned negative – there are now more downgrades than upgrades.

Speculative default rates are expected to rise in the coming year too. The good news is that the rise in defaults seems to be modest (so far), and to a level that should not worry investors too much for now. According to Moody's, global default rates are expected to increase, but they will remain below the historical average of around 4%.

This base case of only a modest uptick in default rates comes against a broadly favourable combination for credits of low interest rates, typical levels of leverage, and healthy interest rate coverage ratios. This gives corporates some headroom to bear the economic challenges of a slowing economy.

We are underweight global investment grade credits and neutral global high yield credits

How to allocate to credit?

Overall we think the credit risk premium for global credits looks fair, given the fundamental backdrop. For asset allocators, the important strategy is to avoid too much rate duration risk in our portfolios. We are underweight global investment grade bonds and neutral in global high yield bonds

But avoiding duration risk is a tricky balancing act, because while global yield curves are flat or inverted, credit spread curves are upward-sloped. That means that there are good carry and roll-down opportunities in the short and intermediate parts of credit curves, even given the pitfalls associated with trying to "ride the storm" in longer-term government bonds (see page 8).

Global equities

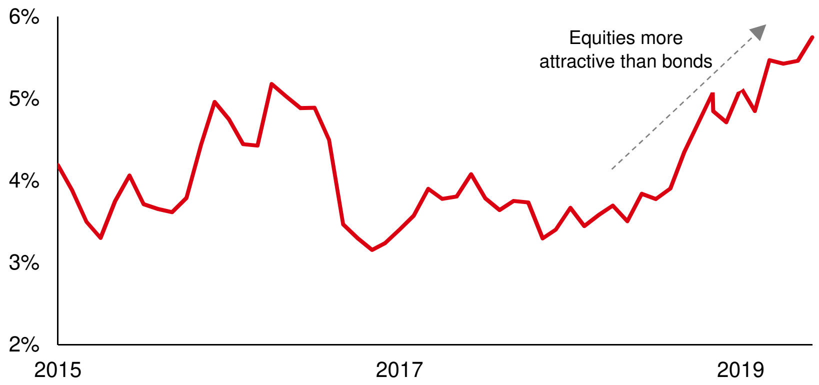
The most important equity market development happened in bonds

The valuation gap between bonds and equities has widened further

Global equities have gained more than 15% year-to-date (USD terms). But, fascinatingly, the return journey has not felt that good at all for investors. A large part of what has played out in global equities in 2019 is a reversal of weakness in 2018. If we look instead at the last 12 months, global equities have been a bit of “a dog”, returning only 5% in total return terms. And since Q1, equity performance has been flat amid the slowdown in macro and profits growth, as well as political uncertainty.

But the most important equity market development in recent months has actually taken place in the bond market. The rally in bond yields means that equity relative valuation has improved materially. As always, it is this relative valuation that is the critical consideration for asset allocators. Today, we measure a global equity risk premium of 4.8% (versus cash), and 5.7% when compared to US bonds. It’s a significantly elevated risk premium versus our sense of neutrality.

Figure 7: Difference in risk premia between global equities and US 10-yr bonds



Source: HSBC Global Asset Management and Bloomberg, as at September 2019
Past performance is no guarantee of future results.

The high equity risk premium implies investors price a profits “disaster”

Tracking the corporate profits outlook closely

A high implied equity risk premium, driven by lower cash rates and lower bond yields, means that the market fears a profits recession. In fact, the academic studies go as far as to label today’s elevated equity premium as a “disaster risk premium” – because of the macro scenario it embeds.

But are corporate fundamentals that bad? For sure, profits are in a tricky position. Earnings growth has deteriorated with net profit margins contracting globally, albeit from high single digit levels. US profit growth continues at mid-single digit rates but, outside the US, developed markets have seen negative profits growth over the last year. Europe and Japan have been the main laggards, while the UK (despite the Brexit uncertainty) has been a bit more resilient.

Corporate fundamentals have particularly come under pressure in emerging markets, with negative earnings growth in Asia. However, recent data does appear to show tentative signs that growth is starting to pick up in the region (i.e. earnings momentum has stopped falling).

Pro-risk, but conservative

Fade the implied “disaster risk”

It’s clear that an outright earnings recession would be a material issue for equities. But our reading of the macro situation, the policy support, and some signs of earnings stabilisation implies that the situation remains a “cyclical slowdown”.

What’s more, investors are getting paid handsomely to own the volatility in equities. We advocate a strategy of being “pro-risk, but conservative”, with one eye trained to the risk scenario that profits dynamics worsen faster than we expect.

Emerging markets

EM under-performance, but it is only partly a "rational re-pricing" of risk…

Has emerging market riskiness increased?

Emerging market (EM) asset classes continue to underperform. EM fixed income asset classes are only slightly behind global bonds in 2019. But in the equity space, EM returns have lagged developed markets by around 10%. EM underperformance began in 2018 as trade tensions became a key part of the market narrative (see page 6), and as global macro indicators began to soften. World trade volumes, for example, peaked in October 2018. And this has had a spill-over impact on macro growth and corporate fundamentals. Part of what has played out in EM equities is a "rational re-pricing" of EM risk.

But the key question is whether current pricing "over-discounts" some of these challenges? Have perceptions of EM risk become too pessimistic?

…this leaves a number of EM asset classes attractively valued

Does EM fixed income look more attractive than EM equities?

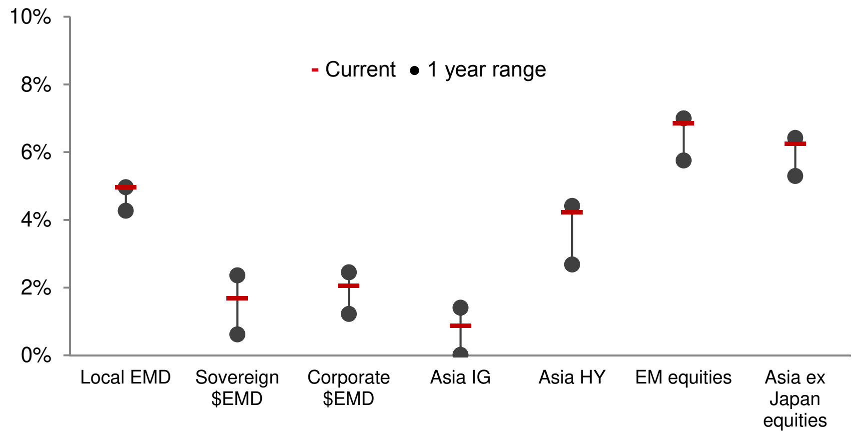
The answer is: "it depends". In the current environment, being selective looks key.

The most attractive risk premia today are in EM bonds – especially in local EM debt and Asian HY bonds. Local EM bonds offer lower volatility, positive real rates, and undervalued FX. Meanwhile Asia HY has low USD duration and good carry (see figure 8).

However, there are parts of the EM fixed income universe that do not look so attractive. Consider $EM debt. Here the challenge is that it has an embedded US duration bet, at a time when the US bond risk premium is negative. We recommend being underweight this asset class as part of our focus on shorter-duration strategies (see page 8).

Meanwhile, EM equity risk premia have risen, look relatively high (see page 7), and are back at the top of recent ranges. Typically, that represents a good valuation signal. But a large equity rally remains constrained by the headwinds from trade tensions, and slower economic growth and corporate profitability. That means that we may have to be patient, and make sure that we are being targeted and disciplined in how we take EM equity risk.

Figure 8: EM asset class risk premia (vs US cash)



Source: HSBC Global Asset Management and Bloomberg, as at September 2019.
Past performance is no guarantee of future results.

Key risks to watch for EMs – "yuan shock" and "dollar shock"

A "yuan shock" or a "dollar shock" are key risks

Recent trade escalations produced a new source of risk: a sharp depreciation of the yuan. We have broken through the psychological threshold of 7 against the dollar. If this trend continues, it can impact other EMs, potentially derailing EM growth prospects.

A more familiar risk is the "dollar shock"; similar to the episode in 2018 that caused significant pain for EMs – and particularly impacting those EMs with weak external balances. For now, the Fed is in easing mode and trying to extend the economic cycle – that should be mildly dollar bearish. But we need to be wary of any change of Fed policy language that could disappoint market expectations, and initiate a dollar rally.

Multi-asset house views

Asset Class		View	Comments
Aggregates	Global DM bonds	▼	Traditional safety asset classes are very expensive. Low prospective returns and the scope for an upside surprise in the inflation picture changes the risk properties of bonds
	Global IG	▼	The pricing of duration risk remains a drag on credit expected returns. Prospective returns on global IG bonds have fallen in 2019 and the Sharpe Ratio is low versus other asset classes
	Global HY	↔	The pricing of duration risk remains a drag on HY prospective returns, but there remains a reasonable credit risk premium. Recent credit deterioration means we are monitoring the situation closely
	Global Equities	▲	The valuation gap between bonds and equities remains wide. There is upside potential we want to capture. But we are careful in not overextending risk given market uncertainties
Bonds	US	▼	Recession worries and a "lower-for-even-longer" rate scenario are being priced into Treasuries. Inflation risks are dismissed at a time when the US labour market is tight and growth worries are overdone
	Europe	▼	We continue to measure a very negative risk premium in European bonds; investors are heavily penalised for taking duration risk in Europe – even given negative interest rates. Policy is slowly moving toward fiscal stimulus
	Local currency EM bonds	▲	Prospective returns have moved lower but they continue to look relatively attractive versus the opportunity set. EM inflation remains low and central banks are cutting rates. EM FX is cheap
Credits	DM Credit	▼	The pricing of duration risk is a drag on credit expected returns. Prospective returns on global IG bonds have fallen in 2019. There are some signs of credit fundamentals deteriorating which need monitoring
	Asia Credit	▲	Valuations look neutral overall, but prospective risk-adjusted returns continue to look attractive in Asia HY. We need to monitor the China macro and credit defaults outlook closely. At present, investors are well-rewarded for those risks
	Hard Currency EM bonds	▼	Hard currency EMD – both sovereign and corporate - looks expensive given its long USD rate duration. Exposure to vulnerable, idiosyncratic EMs also weighs on outlook .Other parts of the credit opportunity set look preferable
Equities	Developed Markets	▲	Political concerns and recession fears have capped the upside in global equities. But equity valuations are relatively attractive, macro and corporate fundamentals look OK, and the supportive policy backdrop favours an OW view
	Emerging Markets	▲	EM equities are relatively attractively-priced, they could outperform if key macro and political risks don't materialise. However, profits delivery remains very weak and needs to be tracked closely.
	Asia (inc. Japan)	▲	Pan-Asia equity offers good prospective risk-adjusted returns, but trade tensions and negative earnings growth have weighed on performance in 2019 and continue to challenge the outlook. We would focus on North Asia over South Asia
Other	US dollar	↔	Fed policy is mildly dollar-bearish. But the dollar can become a safe haven beneficiary of political risks intensifying, or any change in tone from the Fed
	Commodities	↔	Prospective returns look neutral for commodities, and we prefer other forms of inflation protection – such as index-linked bonds or equities. Episodic spikes in oil (and some other economically-sensitive commodities) given the geopolitical backdrop may be the new-normal
	Index-linked bonds	▲	Inflation risk is a neglected risk and is under-priced. It will not take much of an inflation shock to surprise investors. We prefer global linkers to nominal bonds, and US TIPs to other global linkers (the US is the most likely source of inflation surprise)

▼ Underweight ↔ Neutral ▲ Overweight

Source: HSBC Global Asset Management and Bloomberg, as at September 2019.
Any forecast, projection or target contained in this document is indicative only and is not guaranteed in any way.

HSBC
Global Asset
Management

Important information

For Professional Clients and intermediaries within countries and territories set out below; and for Institutional Investors and Financial Advisors in Canada and the US. This document should not be distributed to or relied upon by Retail clients/investors.
The value of investments and the income from them can go down as well as up and investors may not get back the amount originally invested. Past performance contained in this document is not a reliable indicator of future performance whilst any forecasts, projections and simulations contained herein should not be relied upon as an indication of future results. Where overseas investments are held the rate of currency exchange may cause the value of such investments to go down as well as up. Investments in emerging markets are by their nature higher risk and potentially more volatile than those inherent in some established markets. Economies in Emerging Markets generally are heavily dependent upon international trade and, accordingly, have been and may continue to be affected adversely by trade barriers, exchange controls, managed adjustments in relative currency values and other protectionist measures imposed or negotiated by the countries and territories with which they trade. These economies also have been and may continue to be affected adversely by economic conditions in the countries and territories in which they trade. Mutual fund investments are subject to market risks, read all scheme related documents carefully.

The contents of this document may not be reproduced or further distributed to any person or entity, whether in whole or in part, for any purpose. All non-authorised reproduction or use of this document will be the responsibility of the user and may lead to legal proceedings. The material contained in this document is for general information purposes only and does not constitute advice or a recommendation to buy or sell investments. Some of the statements contained in this document may be considered forward looking statements which provide current expectations or forecasts of future events. Such forward looking statements are not guarantees of future performance or events and involve risks and uncertainties. Actual results may differ materially from those described in such forward-looking statements as a result of various factors. We do not undertake any obligation to update the forward-looking statements contained herein, or to update the reasons why actual results could differ from those projected in the forward-looking statements. This document has no contractual value and is not by any means intended as a solicitation, nor a recommendation for the purchase or sale of any financial instrument in any jurisdiction in which such an offer is not lawful. The views and opinions expressed herein are those of HSBC Global Asset Management at the time of preparation, and are subject to change at any time. These views may not necessarily indicate current portfolios' composition. Individual portfolios managed by HSBC Global Asset Management primarily reflect individual clients' objectives, risk preferences, time horizon, and market liquidity. Foreign and emerging markets. Investments in foreign markets involve risks such as currency rate fluctuations, potential differences in accounting and taxation policies, as well as possible political, economic, and market risks. These risks are heightened for investments in emerging markets which are also subject to greater illiquidity and volatility than developed foreign markets. This commentary is for information purposes only. It is a marketing communication and does not constitute investment advice or a recommendation to any reader of this content to buy or sell investments nor should it be regarded as investment research. It has not been prepared in accordance with legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of its dissemination. We accept no responsibility for the accuracy and/or completeness of any third party information obtained from sources we believe to be reliable but which have not been independently verified.

HSBC Global Asset Management is a group of companies in many countries and territories throughout the world that are engaged in investment advisory and fund management activities, which are ultimately owned by HSBC Holdings Plc. (HSBC Group). HSBC Global Asset Management is the brand name for the asset management business of HSBC Group. The above communication is distributed by the following entities:

- In **Argentina** by HSBC Administradora de Inversiones S.A.S.G.F.C.I., Sociedad Gerente de Fondos Comunes de Inversión, registered with the Comisión Nacional de Valores (CNV) under N° [1];
- In **Australia**, this document is issued by HSBC Bank Australia Limited ABN 48 006 434 162, AFSL 232595, for HSBC Global Asset Management (Hong Kong) Limited ARBN 132 834 149 and HSBC Global Asset Management (UK) Limited ARBN 633 929 718. This document is for institutional investors only, and is not available for distribution to retail clients (as defined under the Corporations Act). HSBC Global Asset Management (Hong Kong) Limited and HSBC Global Asset Management (UK) Limited are exempt from the requirement to hold an Australian financial services license under the Corporations Act in respect of the financial services they provide. HSBC Global Asset Management (Hong Kong) Limited is regulated by the Securities and Futures Commission of Hong Kong under the Hong Kong laws, which differ from Australian laws. HSBC Global Asset Management (UK) Limited is regulated by the Financial Conduct Authority of the United Kingdom and, for the avoidance of doubt, includes the Financial Services Authority of the United Kingdom as it was previously known before 1 April 2013, under the laws of the United Kingdom, which differ from Australian laws.
- In **Austria** by HSBC Global Asset Management (Österreich) GmbH which is regulated by the Financial Market Supervision in Austria (FMA);
- In **Bermuda** by HSBC Global Asset Management (Bermuda) Limited, of 37 Front Street, Hamilton, Bermuda which is licensed to conduct investment business by the Bermuda Monetary Authority;
- In **Canada** by HSBC Global Asset Management (Canada) Limited which provides its services as a dealer in all provinces of Canada except Prince Edward Island and also provides services in Northwest Territories. HSBC Global Asset Management (Canada) Limited provides its services as an advisor in all provinces of Canada except Prince Edward Island;
- In **Chile**: Operations by HSBC's headquarters or other offices of this bank located abroad are not subject to Chilean inspections or regulations and are not covered by warranty of the Chilean state. Further information may be obtained about the state guarantee to deposits at your bank or on www.sbif.cl;
- In **Colombia**: HSBC Bank USA NA has an authorized representative by the Superintendencia Financiera de Colombia (SFC) whereby its activities conform to the General Legal Financial System. SFC has not reviewed the information provided to the investor. This document is for the exclusive use of institutional investors in Colombia and is not for public distribution;
- In **Finland**, Norway, Denmark and Sweden by HSBC Global Asset Management (France), a Portfolio Management Company authorised by the French regulatory authority AMF (no. GP99026) and through the Stockholm branch of HSBC Global Asset Management (France), regulated by the Swedish Financial Supervisory Authority (Finansinspektionen);
- In **France**, Belgium, Netherlands, Luxembourg, Portugal, Greece by HSBC Global Asset Management (France), a Portfolio Management Company authorised by the French regulatory authority AMF (no. GP99026);
- In **Germany** by HSBC Global Asset Management (Deutschland) GmbH which is regulated by BaFin;
- In **Hong Kong** by HSBC Global Asset Management (Hong Kong) Limited, which is regulated by the Securities and Futures Commission;
- In **India** by HSBC Asset Management (India) Pvt Ltd. which is regulated by the Securities and Exchange Board of India;
- In **Italy** and Spain by HSBC Global Asset Management (France), a Portfolio Management Company authorised by the French regulatory authority AMF (no. GP99026) and through the Italian and Spanish branches of HSBC Global Asset Management (France), regulated respectively by Banca d'Italia and Commissione Nazionale per le Società e la Borsa (Consob) in Italy, and the Comisión Nacional del Mercado de Valores (CNMV) in Spain;
- In **Mexico** by HSBC Global Asset Management (Mexico), SA de CV, Sociedad Operadora de Fondos de Inversión, Grupo Financiero HSBC which is regulated by Comisión Nacional Bancaria y de Valores;
- In the **United Arab Emirates, Qatar, Bahrain & Kuwait** by HSBC Bank Middle East Limited which are regulated by relevant local Central Banks for the purpose of this promotion and lead regulated by the Dubai Financial Services Authority.
- In **Oman** by HSBC Bank Oman S.A.O.G regulated by Central Bank of Oman and Capital Market Authority of Oman;
- In **Peru**: HSBC Bank USA NA has an authorized representative by the Superintendencia de Banca y Seguros in Perú whereby its activities conform to the General Legal Financial System - Law No. 26702. Funds have not been registered before the Superintendencia del Mercado de Valores (SMV) and are being placed by means of a private offer. SMV has not reviewed the information provided to the investor. This document is for the exclusive use of institutional investors in Perú and is not for public distribution;
- In **Singapore** by HSBC Global Asset Management (Singapore) Limited, which is regulated by the Monetary Authority of Singapore;
- In **Switzerland** by HSBC Global Asset Management (Switzerland) AG whose activities are regulated in Switzerland and which activities are, where applicable, duly authorised by the Swiss Financial Market Supervisory Authority. Intended exclusively towards qualified investors in the meaning of Art. 10 para 3, 3bis and 3ter of the Federal Collective Investment Schemes Act (CISA);
- In **Taiwan** by HSBC Global Asset Management (Taiwan) Limited which is regulated by the Financial Supervisory Commission R.O.C. (Taiwan);
- In the **UK** by HSBC Global Asset Management (UK) Limited, which is authorised and regulated by the Financial Conduct Authority;
- In the **US** by HSBC Global Asset Management (USA) Inc. which is an investment adviser registered with the US Securities and Exchange Commission.
  INVESTMENT PRODUCTS:
  - Are not a deposit or other obligation of the bank or any of its affiliates;
  - Not FDIC insured or insured by any federal government agency of the United States;
  - Not guaranteed by the bank or any of its affiliates; and
  - Are subject to investment risk, including possible loss of principal invested.