| Wealth Management Advisory |

Looking to rebalance

- A month ago, we highlighted equity markets were likely to rebound from oversold levels. We believe we may be getting closer to the end of this rally and would look for opportunities to rebalance out of equities into more defensive assets.
- On balance, we would increase allocation to alternative assets and corporate credit, both investment grade and high yield, generally and within a multi-asset income allocation.
- Within equities, we believe the Euro area has the best potential to outperform while the risks to our Japan outlook have increased significantly. The US replaces Japan as our second-most favoured region. At the margin, the rebound in commodity prices makes us less bearish on non-Asia Emerging Market equities, although we remain underweight here and in the UK.

Global Investment Council Perspectives

Our GIC met last week. The below summarises our discussion on some of the key issues affecting financial markets.

1

Equities have rallied sharply over the past month. Do you see this continuing and, if so, for how long?

Last month, we expected equity markets to rally from oversold levels, but we are concerned this rally will not extend too far.

The good news is we have seen more dovish central bank policies, some signs of stabilising earnings expectations and improving equity market momentum.

However, the US S&P 500 Index is around 4.6% from key resistance. Given the US market accounts for just over 50% of the global benchmark, this suggests further upside may be limited unless fundamentals improve markedly (see pages 14-18 for more details on our key convictions within equity).

2

Given this, what should investors consider doing?

We would use this rally in risky assets to partially rebalance out of equities into bonds and alternative strategies (when available). For bonds, we have a preference for corporate bonds, especially US Investment Grade (IG) and High Yield (HY) bonds. Within alternative strategies, we continue to like equity long/short and global macro strategies– the latter as a hedge against extreme economic outcomes.

In multi-asset income, we would also look to reduce exposure to equities.

3

The US dollar has weakened recently. Is the period of USD strength over?

We indicated last year that the USD is unlikely to rally strongly in 2016. However, it is too early to write off the USD, given continued monetary policy divergence between the US, where we still expect one hike this year, and Europe/Japan.

The USD has recently bounced, and we believe we may see a continued recovery from here in the near term. We expect the EUR to retest the 1.08 area in the coming months. Meanwhile, the AUD may top out close to here if iron ore prices slump as we expect (see chart in FX section on page 24).

4

What are the risks of a China hard landing and/or CNY devaluation?

The Chinese authorities are clearly struggling to find the right balance between supporting near-term growth and implementing reforms to support long-term growth. The focus has recently shifted more to the short term, and there are some signs that the economy may recover slightly in the coming 2-3 months.

The PBoC has already used the CNY as a source of policy flexibility. The weak USD allowed the authorities to guide the CNY lower on a trade-weighted basis while it rises against the USD. If the USD bounces in the coming weeks as we expect, the situation may become more challenging. How the authorities respond will determine whether the slowdown in capital flight in February reverses or not. A renewed rise in capital outflows could hurt appetite for equities and other risky assets.

5

Commodity prices have rallied recently. Is this something you expect to continue?

Last month, we were cautious on the short term outlook for oil prices. The recent rally notwithstanding, we believe the market will remain in excess supply in the near term. A decline in US production and/or increase in global demand are required to push oil prices sustainably higher. This may take a few months to achieve. Elsewhere, we are cautious on commodities, particularly industrial metals.

The team

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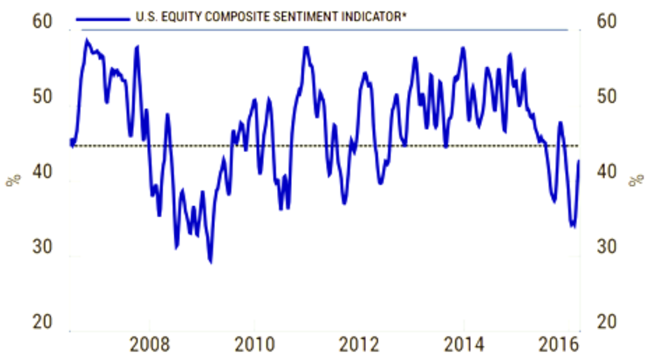
Global Investment Council Perspectives (cont'd)

Equity market sentiment rebounds from extreme lows

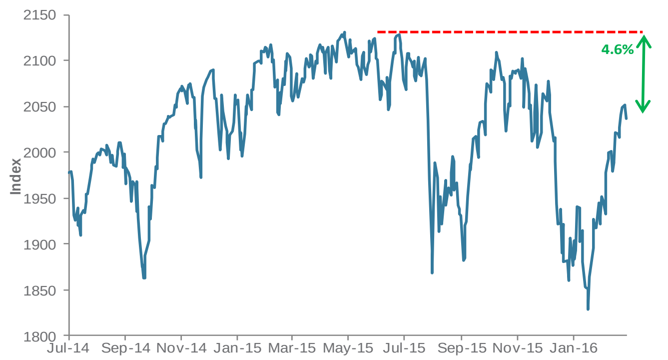
BCA equity composite sentiment index



Source: BCA Research, Standard Chartered

US equity market only 4.6% from all-time highs

Standard and Poor's 500 equity index



Source: Bloomberg, Standard Chartered

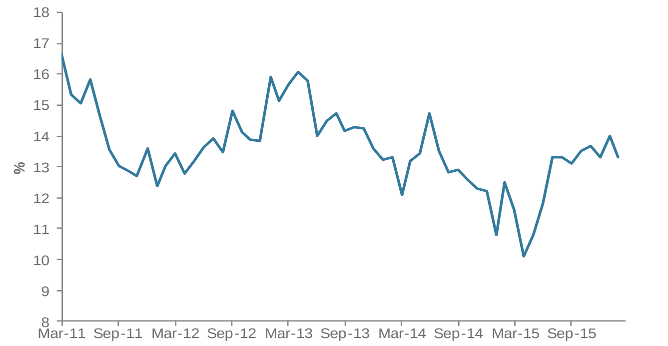
USD rebounding from close to 12-month lows

USD index

Source: Bloomberg, Standard Chartered

Chinese authorities more focused on supporting growth

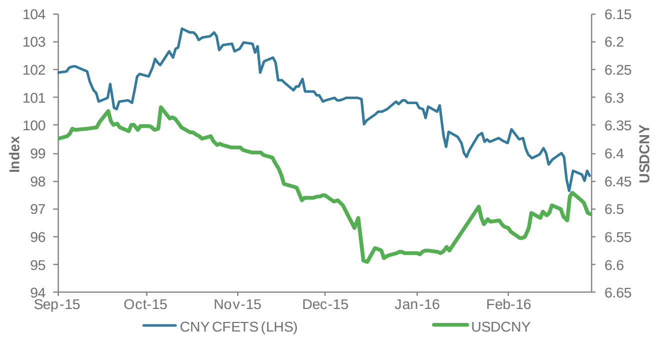
China M2 money supply growth, % y/y



Source: Bloomberg, Standard Chartered

USD weakness allows CNY to weaken on a trade-weighted basis, but appreciate against the USD

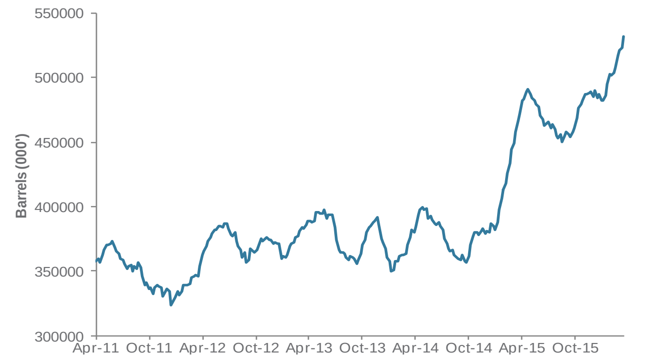
CNY CFETS index and USD/CNY (inverted)



Source: Bloomberg, Standard Chartered

Oil market remains oversupplied

US Department of Energy crude oil inventories



Source: Bloomberg, Standard Chartered

Market performance summary*

Equity	Year to date	1 month
Global Equities	-1.5%	5.2%
Global High Dividend Yield Equities	2.0%	4.8%
Developed Markets (DM)	-1.9%	4.7%
Emerging Markets (EM)	2.6%	10.6%
By country		
US	-0.5%	4.5%
Western Europe (Local)	-5.7%	2.8%
Western Europe (USD)	-5.2%	4.2%
Japan (Local)	-12.0%	4.2%
Japan (USD)	-6.1%	4.2%
Australia	-0.1%	9.5%
Asia ex- Japan	-0.5%	9.4%
Africa	5.6%	10.6%
Eastern Europe	10.2%	12.5%
Latam	14.3%	16.6%
Middle East	-2.9%	5.4%
China	-7.3%	10.0%
India	-3.1%	12.6%
South Korea	2.2%	10.6%
Taiwan	5.2%	6.4%
By sector		
Consumer Discretionary	-2.5%	5.1%
Consumer Staples	3.1%	2.9%
Energy	5.7%	9.4%
Financial	-6.2%	7.3%
Healthcare	-7.6%	0.2%
Industrial	1.9%	5.8%
IT	-0.5%	6.5%
Materials	3.8%	8.9%
Telecom	5.3%	4.0%
Utilities	6.3%	4.0%
Global Property Equity/REITS	1.9%	7.4%

Bonds	Year to date	1 month
Sovereign		
Global IG Sovereign	5.5%	0.8%
Global HY Sovereign	3.4%	3.6%
EM IG Sovereign	4.9%	2.6%
US Sovereign	2.5%	-0.8%
EU Sovereign	6.5%	1.2%
Asia EM Local Currency	6.9%	4.8%
Credit		
Global IG Corporates	3.3%	2.2%
Global HY Corporates	3.1%	5.2%
US High Yield	3.0%	5.4%
Europe High Yield	3.1%	5.3%
Asia High Yield Corporates	2.8%	3.1%

Commodity	Year to date	1 month
Diversified Commodity	1.0%	4.7%
Agriculture	1.8%	5.2%
Energy	-8.5%	9.7%
Industrial Metal	2.4%	2.7%
Precious Metal	13.8%	-1.0%
Crude Oil	5.0%	13.3%
Gold	14.6%	-1.3%

FX (against USD)	Year to date	1 month
Asia ex- Japan	0.7%	1.8%
AUD	3.0%	3.7%
EUR	2.8%	1.4%
GBP	-4.1%	1.2%
JPY	6.3%	-0.1%
SGD	3.4%	2.2%

Alternatives	Year to date	1 month
Composite (All strategies)	-2.1%	1.2%
Arbitrage	-2.7%	0.3%
Event Driven	-1.6%	2.6%
Equity Long/Short	-3.6%	2.5%
Macro CTAs	0.1%	-1.4%

*All performance shown in USD terms, unless otherwise stated.

*YTD performance data from 31 December 2015 to 25 March 2016 and 1-month performance from 25 February to 25 March 2016

Sources: MSCI, JP Morgan, Barclays Capital, Citigroup, Dow Jones, HFRX, FTSE, Bloomberg, Standard Chartered

Investment strategy

- Equities and High Yield (HY) bonds have rebounded strongly over the past month. Our multi-asset income allocation has been the top performer from among our A.D.A.P.T themes.
- The equity market rebound may be close to its end. We would use this as an opportunity to reduce exposure to equities and rebalance into absolute return strategies and corporate bonds.
- We have become more concerned about headwinds faced by Japanese equities
- We successfully close our long-held (since December 2014) bearish commodity view.

Technical handover to fundamentals

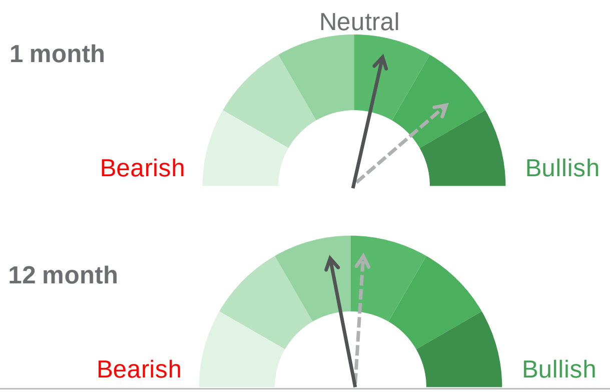
Global equities are about 5.2% higher over the past month. However, the speed of the rebound means the purely technical rebound may have largely run its course.

- A measure of US equity market sentiment has rebounded strongly, suggesting sentiment is now more balanced.
- Fund manager surveys show cash holdings have begun to be deployed, suggesting positioning is more balanced.
- Momentum remains positive across most regions, but some equity markets are beginning to look overbought and approaching key resistance.

Longer term, uncertainty remains high. Our Group Investment Council concluded the Fed was unlikely to tighten policy significantly more than expected, nor was China likely to face a hard landing. Consensus corporate earnings estimates were starting to stabilise, a tentatively positive signal from the equity market. See 'Key perspectives' from our Global Investment Council (pages 2-3) for more details.

We are less constructive on risky assets as the time horizon extends

Group Investment Council view on risky assets (Bold line current month vs. dotted past month)



Data as of 23-Mar-2016
Source: BCA Research, Standard Chartered

Balanced strategy remains relevant

At the beginning of the year, we argued that where we are in the US economic cycle is key. There is little doubt we are late in the cycle, but for investors, history argues the difference between late-cycle and end-cycle can mean the difference between positive or negative returns in equities or HY bonds.

Our read is the risks of a US recession over the next 12 months have fallen only marginally over the past month. The global growth backdrop remains mixed and services data has incrementally weakened. However, the US labour market remains strong and the Fed's reduction in rate hike forecasts for 2016 add a source of policy support. Meanwhile, a lot of the financial market indicators that were flashing amber a month ago (equity markets, corporate bond spreads and commodities) have improved markedly.

We expect USD/JPY to stay largely range-bound

Group Investment Council 3m view on USD/JPY % indicate probability of being in specified range

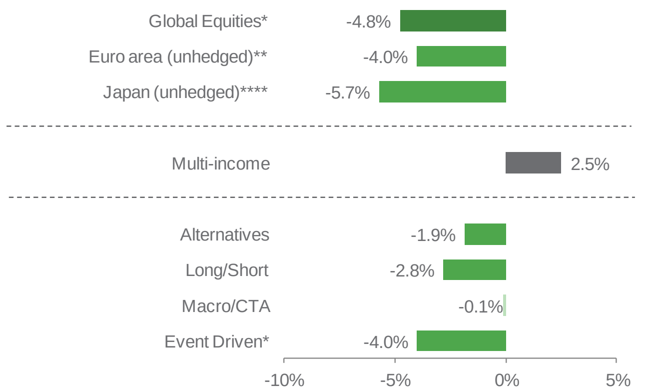
Source: Bloomberg, Standard Chartered

In our view, this supports the case for maintaining a balanced approach to investing. Alternative strategies remain our preferred asset class, as we see room for positive absolute returns in an optimistic scenario and relative outperformance in a negative scenario. We maintain our conviction on corporate credit (most so in the US) as an attractive way of gaining exposure to corporates while, within equities, the Euro area remains our preferred region. We have become more cautious on Japan's equity market outlook against the backdrop of rising headwinds from the JPY and the economy.

Commodities are one area where we are becoming a little more constructive. A flatter trajectory for the USD (on a less aggressive Fed) offers one source of support across the board, particularly for gold. The 12-month outlook is arguably more constructive for oil, especially if US production continues to ease. However, industrial metals are an exception and appear vulnerable to further weakness.

Multi-income remains a strong performer

Performance of A.D.A.P.T. since Outlook 2016***



* Closed on 25-Feb-2016

**FX-hedge removed as of 25-Feb-2016

*** For the period 11 December 2015 to 25 March 2016. Income basket is as described in the Outlook 2016: A year to A.D.A.P.T. to a changing landscape, Figure 38 on page 60

**** Closed on 25 March 2016

Source: Bloomberg, Standard Chartered

Implications for investors

- **Absolute return: Alternative strategies.** As expected, these underperformed long-only strategies in the recent rebound. However, this lower-volatility characteristic is why we believe we would maintain exposure to alternative strategies. Amid heightened uncertainty, equity or bond long/short strategies, for instance, offer an attractive way to gain asset class exposure with lower volatility than long-only strategies.
- **Absolute return: Multi-asset income – reduce allocation to equity.** We would use the recent rally in global equities to rebalance towards more defensive income generators such as US corporate bonds.
- **Look to increase corporate bond exposure.** Valuations remain attractive and a combination of US Investment Grade (IG) and HY exposure offers attractive exposure in both positive and negative scenarios. Investors are also paid a yield to ride out any short-term overbought conditions.
- **Maintain focus on Euro area equities.** Economic data and corporate earnings expectations appear to be stabilising, the ECB's recent stimulatory efforts demonstrate continued policy support and the EUR still has room to offer support via modest weakness.
- **Reduce Japan equities exposure.** Positive earnings growth notwithstanding, continued JPY strength and slower-than-expected wage growth have created headwinds. This means Japan equities may not perform as well as we had expected. We turn neutral.

Asset class	Sub-asset class	Relative outlook	Start date*
Cash		Underweight	Feb 2012
Fixed Income	Developed Markets Investment Grade government bonds	Underweight	Jan 2011
	Developed Markets Investment Grade corporate bonds	Overweight	Dec 2015
	Developed Market High Yield corporate bonds	Overweight	Aug 2015
	Emerging Markets USD government bonds	Neutral	Dec 2015
	Emerging Markets local currency government bonds	Underweight	Dec 2015
	Asia USD corporate bonds	Neutral	Feb 2016
Equity	US	Neutral	Feb 2015
	Euro area	Overweight	Jul 2013
	UK	Underweight	Aug 2015
	Japan	Neutral↓	March 2016
	Asia ex-Japan	Neutral	Jul 2015
	Other EMs	Underweight	Aug 2012
Commodities		Neutral↑	March 2016
Alternatives		Overweight	Jun 2013

*Start Date - Date at which this tactical stance was initiated
Source: Standard Chartered

Economic and policy outlook

- The global economic outlook has continued to weaken, with growth downgrades seen across regions, while inflation in the US, Europe, Japan and China remain below policy targets.
- The Fed cited rising global risks as a factor in holding off a rate hike in March – we now expect one more increase this year. As expected, the ECB delivered another bold set of policy stimulus, while China's policymakers switched their focus towards propping up growth. In Japan, pressure is growing on the government to further postpone a sales tax hike in 2017.
- Our Global Investment Council remains constructive on the growth outlook over the next 12 months. The recent weakness in the USD has eased financial conditions in the US and the nascent recovery in commodities and China's growth stabilisation measures has lifted near-term sentiment. We also believe monetary policy remains effective, providing support to growth.

We remain constructive on the growth outlook over the next 12 months.

Global economic growth weakens. This is reflected in a sustained contraction in global trade and downgrades in growth estimates since the start of the year. The US, Europe and China remain major growth drivers, fuelled by supportive monetary and (in the case of China) relaxed fiscal policies.

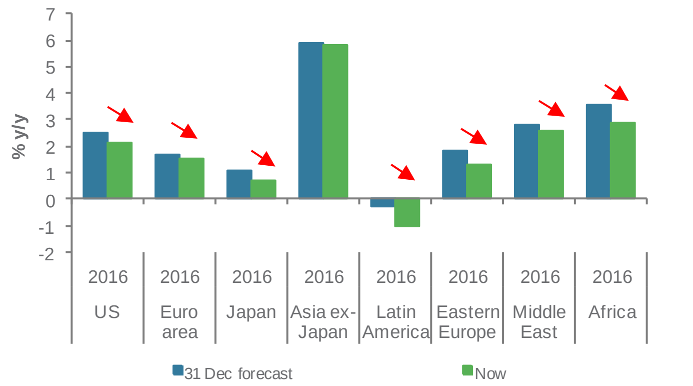
Commodity rebound eases deflation pressures for now. The USD's weakness since the start of the year has also helped relax US financial conditions, easing currency depreciation pressures in Emerging Markets (EMs). However, inflation in the US, Europe, Japan and China remain well below central bank targets.

Monetary policies remain supportive. The ECB's fresh set of monetary stimulus, following Japan's move to introduce negative interest rates, highlights continued accommodation from central banks. We expect the Fed to raise rates only once this year, supporting growth. Meanwhile, fiscal policy has become more relaxed in major economies over the past year, particularly in the US but also in Europe, Japan and China.

We remain constructive on the growth outlook. Our Global Investment Council took note of the easing financial conditions and increasingly accommodative monetary policies. We also expect China's policy shift towards supporting growth to help it avoid a hard landing. These measures keep us constructive on the growth outlook over the next 12 months.

We remain constructive on global growth despite recent downgrades in consensus forecasts

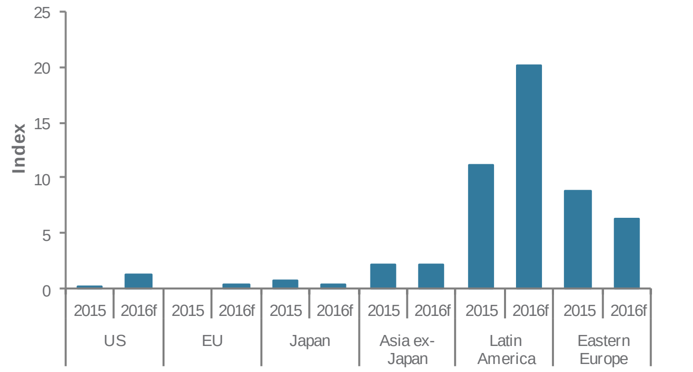
Consensus GDP growth forecasts (%, y/y)



Source: Bloomberg, Standard Chartered

While inflation is gradually returning in DMs, they remain well below central bank targets

Consumer inflation in 2015 and forecasts for 2016 (%, y/y)



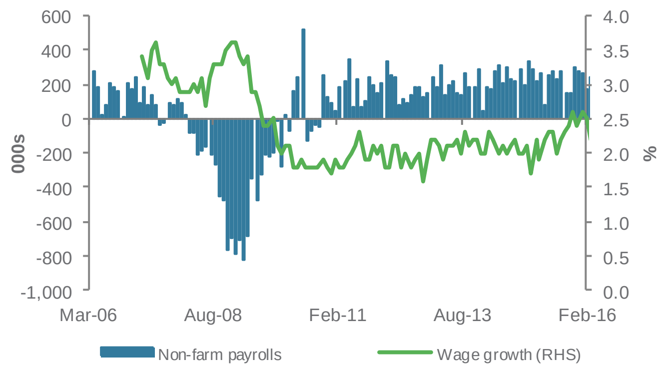
Source: Bloomberg, Standard Chartered

US: Goldilocks economy, global risks buy time for the Fed

- **US economy recovers after two quarters of slowdown.** Consensus forecasts suggest the economy is likely to grow an annualised 2.0% in Q1, double that in Q4 15, as a weaker USD eased financial conditions, while a recovery in oil and commodity prices relieved stress on the resources sector. Robust auto and home sales continued to be among the key growth drivers as a strong job market fuelled consumption.
- **Subdued wage growth.** US wages remained subdued despite a drop in the unemployment rate to an eight-year low, helping sustain the so-called not-too-hot, not-too-cold 'goldilocks' economy. However, the manufacturing sector remains in contraction, while service sector business confidence declined for the fourth month. This has led to a downgrade in 2016 growth forecasts to 2.1%, which brings it below the 2.4% average growth of the past two years.
- **Fed cautious as global risks rise.** The Fed cited heightened global uncertainty for holding back a rate hike in March. We now expect the Fed to hike rates once this year, possibly in H2. However, the recent hawkish remarks by some Fed policymakers have raised the risk of an earlier hike, especially with the rise in core consumer inflation.

US job market is strong, but wages remain subdued

US average monthly net non-farm payrolls ('000s); average hourly wage growth (%) (RHS)



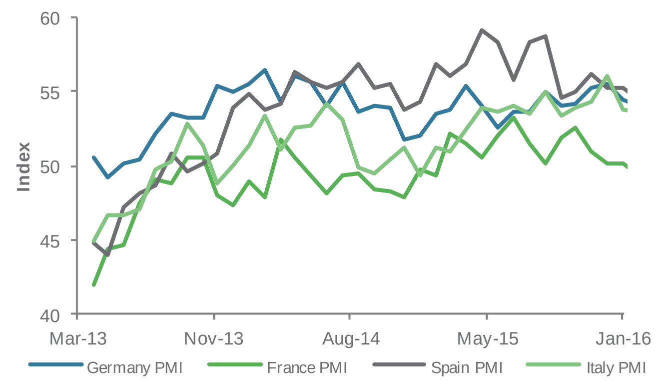
Source: Bloomberg, Standard Chartered

Euro area: ECB delivers more stimulus as inflation remains well below target

- **Euro area growth holding up amid global weakness.** Although consensus 2016 growth estimates for the Euro area have been marginally downgraded to 1.5%, from 1.7% at the start of the year, it remains near last year's 1.6% growth rate. Business confidence across the region (with the exception of France) has shown resilience in the face of slowing global growth, especially in China. Also, we do not expect any decision by the UK to leave the European Union following a referendum in June to have a lasting impact on the region's outlook.
- **Inflation remains far below ECB target.** Consumer prices fell 0.2% in February, while core inflation (excluding food and energy) slowed to 0.8%.
- **ECB takes pre-emptive action.** With inflation remaining well below its 2% target and global risks rising, the ECB cut rates deeper into the negative, increased planned bond purchases and, for the first time, pledged to buy corporate bonds. It also raised incentives for banks to boost lending. The latest stimulus, thus, turns the focus on credit growth, which was already recovering, rather than boosting external competitiveness by weakening the EUR, and is likely positive for the economy.

Euro area business confidence indicators have held up well in the face of rising global uncertainty

PMIs for key Euro area economies



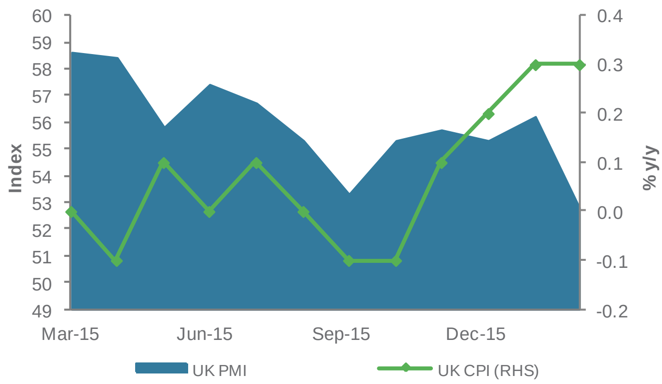
Source: Bloomberg, Standard Chartered

UK: 'Brexit' concerns hurt business confidence

- 'Brexit' uncertainty led to cuts in growth and inflation. The UK's 2016 growth estimates have been cut to 2.0% from 2.3% at the start of the year, while consensus inflation forecasts have been cut to 0.7% from 1.3%. Business confidence has also declined in the past month, while the GBP fell to its weakest level since the financial crisis amid growing support within the ruling Conservative Party for the campaign for the UK to leave the EU.
- **'Brexit' may delay BoE rate hike.** BoE Governor Mark Carney has voiced concerns about the negative impact on UK businesses if the 23 June referendum leads to the UK's exit from the EU. While the referendum remains a close call, the increased uncertainty raises the prospect of further downgrades to growth and inflation estimates, further delaying the chances of a BoE rate hike.

UK's business confidence has taken a hit from 'Brexit' uncertainty, while inflation remains well below BoE target

UK retail sales, ex-auto fuel (%, y/y); unemployment rate (%) (RHS)



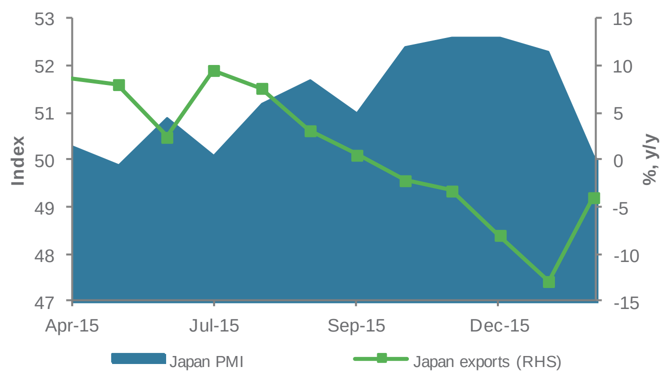
Source: Bloomberg, Standard Chartered

Japan: Strong JPY, weak growth raise questions about BoJ policy, Abenomics

- **Japan's growth and inflation forecasts downgraded.** Although consensus forecasts suggest Japan's economy is expected to return to growth in Q1 – after a contraction in Q4 15 – on the back of robust business spending, full-year growth and inflation estimates have been revised lower to 0.7% and 0.3%, respectively. Annual wage negotiations suggest negligible wage growth in the manufacturing sector. However, wage hikes in the services sector is estimated to have fared better, sustaining expectations of a pick-up in consumption.
- **Focus turns to fiscal policy as impact of further monetary policy easing questioned.** A measure of Japan's core inflation (excluding fresh food and energy) has been rising for the past couple of years and remains above 1.0%. However, the rebound in the JPY, which increases headwinds for the export sector, and weak domestic growth have raised questions about the effectiveness of the BoJ's monetary policy. We believe this turns the focus towards fiscal policy and raises the chances of a further delay in the proposed sales tax increase (to 10% from 8%), slated for April next year.

Japan's manufacturing sector business confidence has slumped as exports continue to contract

Japan's manufacturing sector PMI; exports (%, y/y) (RHS)



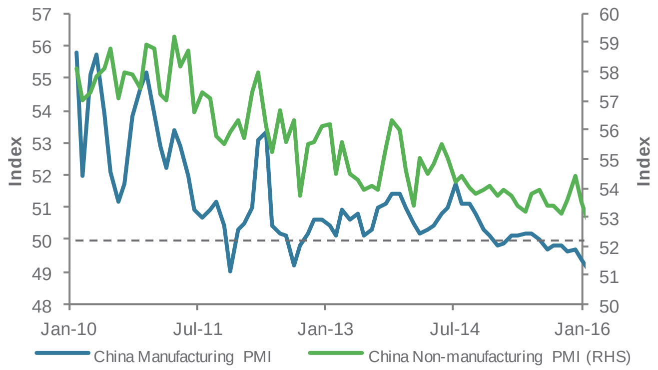
Source: Bloomberg, Standard Chartered

China: Government boosts fiscal spending to prop up economy

- **China's policymakers target at least 6.5% growth.** The policymakers set a 6.5%-7.0% growth target for 2016. They also pledged to boost fiscal spending for the second year to offset headwinds from weak manufacturing and exports and planned restructuring in some industries. Recent data also suggests deterioration in the services sector. The proposals unveiled at the National People's Congress suggest a decisive turn towards supporting growth, although its impact has been questioned.
- **Further cuts to bank reserve requirements likely.** The central bank has refrained from cutting rates this year amid increased capital outflows and heightened pressure on the currency earlier in the year. CNY depreciation pressures have eased following strong intervention in the currency markets and pledge by policymakers to keep the CNY largely stable against its key trade partners. With the CNY stabilising, we expect further cuts to bank reserve requirements and increase lending to targeted sectors. Overall, we believe the measures will help China stabilise growth and avoid a hard landing.

China's services sector confidence has deteriorated lately, while manufacturing sector continues to contract

China's manufacturing and non-manufacturing sector purchasing managers index



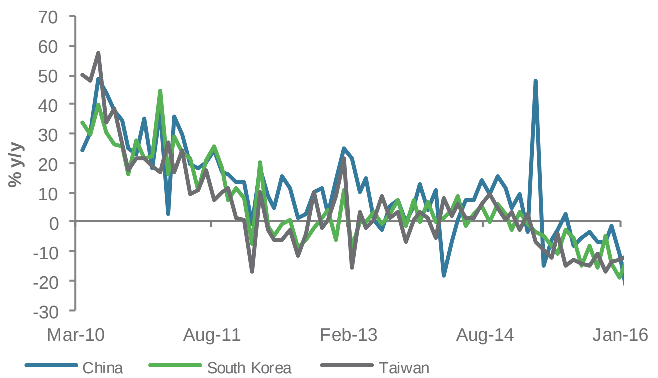
Source: Bloomberg, Standard Chartered

Other EM: Export slump continues, adding headwinds to growth

- **Asia's export contraction continues to dampen outlook, raising prospects for policy easing.** The slump in global trade has led to a sustained contraction in exports across Asia for the second year. China's 17% export slump in the first two months of the year suggests a broad-based decline in global trade, rather than slowing demand from China alone. Indonesia's central bank cut rates this month, as USD weakness relieved depreciation pressure on currencies in Asia. We expect other central banks to follow through with rate cuts as long as the USD remains stable.
- **India's budget opens up prospects for an RBI rate cut.** India's finance minister stuck to his plan to narrow the fiscal deficit target for the next fiscal year to a nine-year low of 3.5%. With inflation remaining within policy targets, we believe the budget decision has raised the prospects for an RBI rate cut on 5 April, if not earlier.
- **Brazil, Russia, Mexico get a lift from the recovery in commodity prices.** We believe further commodity price gains are likely to be limited near term. Meanwhile, Brazil faces uncertainty around the possible impeachment of President Dilma Rousseff. In addition, inflation continues to soar above 10%, increasing headwinds for the economy.

Asia's exports continue to contract, reflecting a prolonged slump in global trade; this adds headwinds to regional growth

Export growth in major economies in Asia – China, South Korea and Taiwan (% y/y)



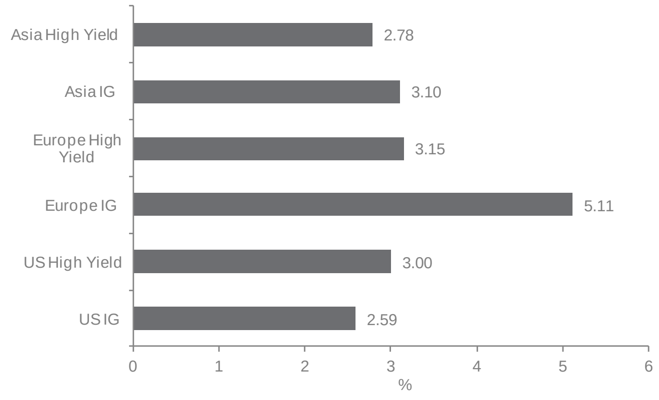
Source: Bloomberg, Standard Chartered

Bonds

- We continue to believe there is a case to raise exposure to bonds.
- We favour corporate bonds over government bonds. Within this, regionally we prefer the US (both Investment Grade and High Yield) over other regions.
- Emerging Market (EM) USD government bonds to benefit from a less aggressive Fed rate hike forecast

We continue to prefer corporate bonds, particularly US IG and HY corporate bonds.

Performance of fixed income YTD* (USD)



For the period 31 December 2015 to 25 March 2016.

Source: Barclays Capital, JPMorgan, Bloomberg, Standard Chartered. Indices are Barclays Capital US Agg, US High Yield, Euro Agg, Pan-Euro High Yield, JPMorgan Asia Credit Index

G3 and EM (USD) sovereign bonds

- **Central banks support G3 government bonds.** High-quality government bonds usually post negative returns or underperform in risk-on periods, similar to the recent one. However, the actions by major central banks over the past month have helped mitigate this impact.
- The US Fed lowered its projection for interest rate hikes in 2016 to two from four. This was clearly positive for US Treasuries. While the Fed projection is still higher than market expectations, the reduced gap between the Fed and market views reduces the risk of sharp bond losses. In Europe, the ECB expanded quantitative easing (QE), a positive for European government bonds.
- However, the recent rise in oil prices and the increase in inflation expectations could become a greater concern. Increased market concern about inflation could lead to a rise in yields and a decline in bond prices. Hence, to balance the risk/reward, we retain our preference for a 5-7 year maturity profile across USD-denominated bonds.
- **Rising and receding risks for EM USD government bonds.** The 4-5% returns from EM USD government bonds this year have been nothing short of stellar. Given that a number of EM countries are commodities exporters, the stabilisation in commodity prices has been positive. The reduction in expectations of a Fed rate hike has also been helpful, as it reduces the pressure on EM currencies and thus refinancing concerns. However, the political noise in Brazil, questions about Venezuela's creditworthiness and the continued deterioration in credit ratings are a headwind to significantly higher valuations. We expect positive returns, and they remain a key component of a well-diversified allocation.

Evolution of key factors since end-2015

Factor	What has changed since December 2015
Fed rate outlook	Reduced rate hike expectations positive for USD-denominated IG bonds from G3 governments, corporates and EM countries
USD strength	Softer USD positive for G3 and less negative for EM local currency bonds
Credit quality	Worsening credit quality a rising risk for EM USD and DM corporate bonds. Deterioration more limited in Asian USD corporate bonds
Valuations	Valuations have turned slightly expensive across DM corporate and EM sovereign (USD) bonds, while they have cheapened for Asia corporate bonds.
Absolute yield	Marginally lower due to lower government bond yields and more expensive valuations.
Commodity prices	Less negative Outlook is a positive for EM USD and DM HY corporate bonds

Source: Standard Chartered

Corporate credit (USD)

- **We retain our preference for corporate bonds.** USD-denominated corporate bonds remain our pick ahead of government bonds, as well as local currency bonds. As shown in the table, while yield premiums in most regions are close to long-term averages, they do offer a sizable yield pickup, which stands out as very attractive in today's low-yield environment. Within corporate credit, US IG and US HY bonds remain our top picks.
- **US IG and US HY credit attractive for fundamentally different reasons.** While the yield offered by US HY bonds have reduced from 9.5% last month to 8.1%, it still stands out as attractive in today's low-yield environment. The recent rally in oil prices certainly helped energy sector bonds. However, the sharp rally over the past month and the continued deterioration of credit fundamentals do limit the potential for capital gains in the short term, particularly if oil prices correct following their recent rally.

  US IG corporates offer a sweet spot of IG credit quality and a yield of 3.3%. In our opinion, US IG bonds stand out as attractive in strong and weak US growth scenarios. If the US faces a recessionary environment, the yield premium could widen, but the decline in US Treasury yields would likely offset this and lead to low positive or only slightly negative returns. If the US economy continues to chug along, the yield premium could reduce to offset, to some extent, the rise in US Treasury yields.
- **Asia credit likely to remain a defensive play.** China remains a big driver of Asia credit, largely due to issuers in China constituting a large section of the market. China credits have delivered stable returns, despite a number of concerns – including currency weakness, slowing growth and Moody's placing China's sovereign credit rating on negative outlook. We continue to believe China is likely to avoid a hard landing, and while the growth is likely to continue slowing, it should remain relatively stable at around 6.0-6.5%. Given the fair valuations, we do not see a reason to particularly favour Asia credit, but it remains a key component of a well-diversified allocation.

Spreads (yield premium over government bonds) of various corporate credit markets (%)

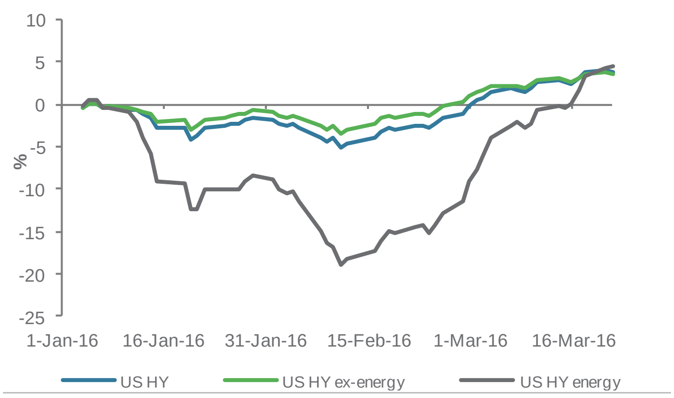
	Current	52wk High	52wk Low	Long-term Average*
US IG	1.88	2.33	1.45	1.98
US HY	6.24	8.39	4.23	5.79
Europe IG	1.33	1.67	0.94	1.34
Europe HY	4.60	5.81	3.42	6.28
Asia IG**	2.31	2.60	1.94	2.52
Asia HY**	6.04	6.97	5.05	6.77

*Long-term spread average from 2001 onwards. **Long term Spread Average from 2006 onwards.

Source: JP Morgan, Barclays, Bloomberg, Standard Chartered

US HY bonds have outperformed as both energy and non-energy bonds posted strong returns

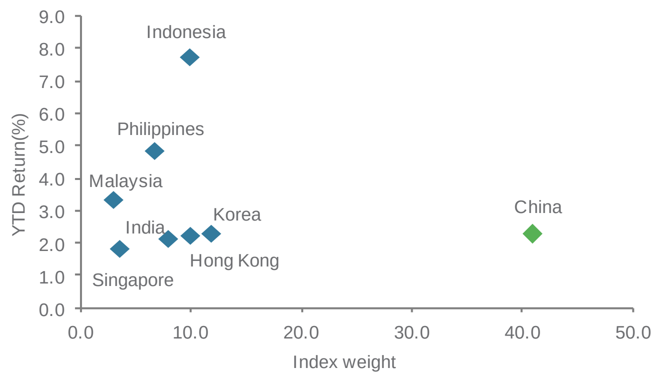
US HY, US HY energy and US HY ex-energy total returns



Source: Barclays, Bloomberg, Standard Chartered

Positive returns from China issuers drive positive Asia credit returns

YTD returns by country and their weight in Asia's credit index



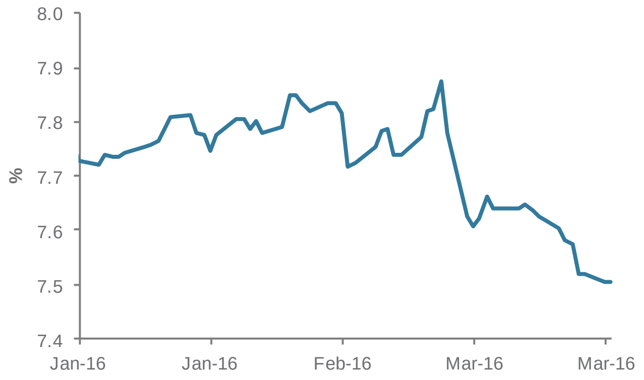
Source: JP Morgan, Bloomberg, Standard Chartered

Asia local currency bonds

- **Currency headwinds likely to ease.** Currency vulnerability has been our chief concern over the recent past. With reduced expectations of Fed rate hikes, currencies in Asia are likely to be under less pressure. This benefits local currency bonds through two channels – first currencies in Asia are likely to depreciate less and second, it gives central banks in Asia room to lower interest rates and boost growth.
- **Retain preference for INR bonds.** We continue to favour INR bonds within the Asia local currency bond space. The recently announced Indian budget was a big positive for INR bonds, as the government reiterated its commitment to 3.5% fiscal deficit. This is likely to keep a lid on the total bond supply, while also encouraging the Reserve Bank of India to cut interest rates again, helping bond prices to rise.

INR bonds yields have declined after the positive budget announcement

10-year Indian Government bonds yields



Source: Bloomberg, Standard Chartered

Equity

- We remain cautious on global equity market prospects.
- We believe the technical equity rebound is running out of steam. However, equities may receive an additional boost if analysts start to upgrade earnings, aided by the recovery in commodity prices. We note the pace of earnings downgrades is diminishing, and a switch to upgrades should be viewed positively by investors.
- The Euro area is our preferred market, followed by the US, Asia ex-Japan, Japan, non-Asia Emerging Markets (EM) and the UK. Our conviction towards Japan has diminished significantly over the past month.

Equity markets may receive a further boost if analysts start to upgrade earnings.

Estimated potential market returns using different approaches

	Consensus Return Estimates[1]	Consensus Return Estimates[2]	Option Implied Return Estimates[3]	Average of Three Return Estimates
US	10%	8%	7%	8%
Japan	26%	14%	8%	16%
Euro area	12%	10%	10%	11%
UK	8%	6%	9%	7%
Asia ex-Japan	13%	8%	11%	11%
Emerging Markets	11%	15%	9%	12%
Developed Markets	11%	10%	8%	10%

1. Consensus estimates based on analyst bottom up price forecasts

2 Estimates using consensus earnings and dividends and assuming a constant trailing price-earnings ratio

3 Option potential return estimates are based on selling a 12 month Put at current levels and expressing the potential return using the premium earned as a % of the current level.

The estimates should be considered a best case with a probability of <50%.

FXI China ETF used as Asia ex-Japan proxy

Source: Bloomberg, FactSet, Standard Chartered

Key market drivers and recent trends

Factor	What has changed YTD and MTD
Earnings growth	**YTD:** 2016 Earnings growth is forecast to be highest in Japan: 12%, followed by Euro area: 5%, US: 3% and Asia ex-Japan 3% **MTD:** Cuts in analyst earnings forecasts have diminished dramatically over the past month.
DM market valuations	**YTD:** Valuations in the US and Euro area are viewed as elevated, Japan is under-valued. **MTD:** Valuations have rebounded following the market rally over the past 30 days. The S&P500 is trading at a 2016 price-earnings multiple of 17x consensus forecast earnings.
EM market valuations	**YTD:** EM valuations are viewed as under-valued, Asia ex-Japan fairly-valued **MTD:** valuations in EM have climbed over the past month, boosted by the 26% rally in Brazil.
Corporate margins	**YTD:** Company margins in the US have peaked as costs including labour rise and are declining in line with expectations. Margins in the Euro area remain below those in the US, but are expected to rise. **MTD:** Margins in the Euro area banking sector have received a reprieve in light of ECB's new offer of access to funding whereby the ECB will pay bank to borrow.
Oil prices	**YTD:** Oil prices have rebounded in anticipation of an OPEC and Russian production freeze and lower US shale oil output. **MTD:** Brent oil has rebounded 17.5% over the past month. This has curtailed the reductions in analyst earnings forecasts, with earnings revisions in the energy sector turning positive in February.
USD	**YTD:** The USD has weakened against the euro and selected EM currencies year to date, despite a more favourable interest rate environment in the US which should fuel interest in holding dollars. **MTD:** The USD has weakened further against the EUR over the past month, despite a very dovish outcome from the ECB meeting and mixed messages from the Fed.

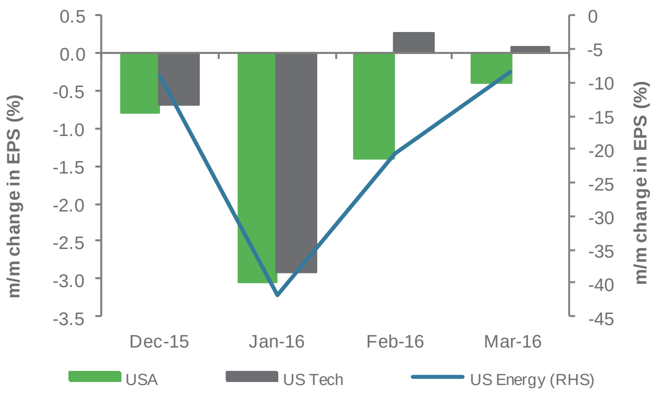
Source: Standard Chartered

US: Cautious, but earnings outlook stabilising

- We are cautious on the outlook for the US equity market, but we acknowledge a key reason for optimism – earnings. While headline earnings growth continues to weaken, consensus expectations are for 3% EPS growth in 2016. On an m/m basis, we note the pace of earnings downgrades has diminished significantly and in select sectors, such as technology, analysts are upgrading earnings. A bottoming earnings revision trend is often linked with improve market performance.
- A weaker USD is undoubtedly contributing to the improvement in technology sector earnings as it has the highest proportion of revenue generated overseas. The recovery in commodity prices is also a positive factor for energy sector earnings. While the m/m change in energy sector earnings remains negative, the trend is clearly diminishing. It is possible they turn positive in the coming months, assuming commodity prices continue to rise. We are positive on the US energy sector.
- There has been a surge in US M&A activity YTD, particularly in the hotel and leisure sectors; this is a typical late-cycle phenomenon. We have also witnessed increased M&A in the energy sector. We have become less negative towards commodities and believe that we have witnessed the bottom in Brent oil prices.

Earnings expectations starting to stabilise

Change in consensus earnings estimates



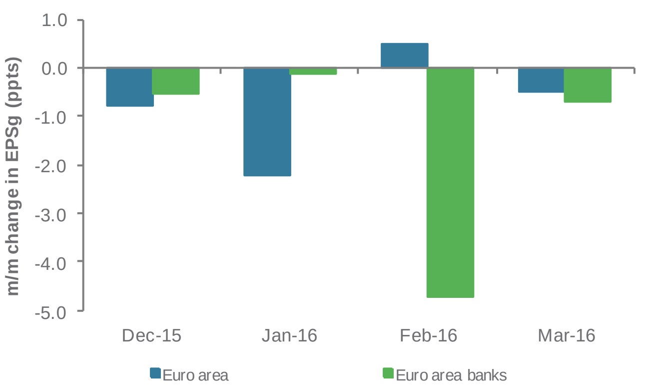
Source: MSCI, FactSet, Standard Chartered Note: March is month-to-date

Europe: Positive on Euro area, negative on the UK

- We are positive on Euro area equities; the average of three estimates for market returns highlighted on page 14 is 11%. While investors may fret over the impact of the political turmoil within Europe, it is worth noting that actual drivers of growth, including banks' lending standards and credit demand, are signalling an improvement in growth.
- Similar to the US equity market, we note an improvement in the pace of earnings downgrades for Euro area equities over the past two months. There had been considerable focus on Euro area banks in February and their capacity to generate profits due to proposed changes to the level of capital banks had to hold and their ability to pay dividends. However, the outcome of the ECB policy meeting in March is viewed as a positive for the sector, and the pace of earnings downgrades has diminished significantly.

Earnings also stabilising somewhat in Europe, in particular bank sector earnings

Change in consensus earnings estimates

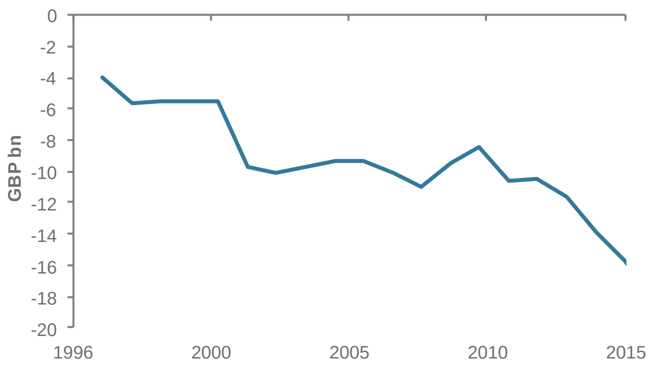


Source: Bloomberg, Standard Chartered

- The weakness in the GBP has boosted the value of the UK equity market/FTSE100 by 10% from the February low due to the significance of overseas revenues as a driver of company profits. While it may be tempting to chase the rally in the market, we believe that 'Brexit' is a risk as opposed to a certainty and, therefore, we would not chase the rally.
- The economic arguments for the UK staying part of the EU are likely to ultimately sway voters. The auto sector is a case in point – while the UK is a net importer of autos, the sector is a major employer and export engine. If 'Brexit' were to occur, UK auto exports may face a 10% tariff as opposed to none currently. The EU accounts for 45% of total UK exports.

'Brexit' could cost the UK an additional 10% in tariff on auto exports

UK net auto imports



Source: MSCI, Bloomberg, Standard Chartered

Japan: Turning cautious on the outlook

- We have become more cautious towards Japan for three reasons:
  1) JPY strength will negatively impact corporate profits
  2) We are more concerned about the economic outlook
  3) The latest round of wage negotiations has disappointed, with raises announced by large employers in 2016 below those in 2015
- We do acknowledge that the Japan equity market retains some attractions, specifically:
  1) Earnings growth is currently the highest among large market peers at 12%, although we see risks to this from JPY strength
  2) YTD share buybacks are more than four times those recorded in 2015
- The BoJ remains the only major central bank actively intervening in the equity market. It plans to buy USD 2.6bn of ETFs this year, adding to the USD 62bn already held.
- We advise clients who have exposure to Japan to consider rebalancing into absolute return strategies and corporate credit.

Japan equity market performance and the JPY are closely correlated

Nikkei 225 and the JPY

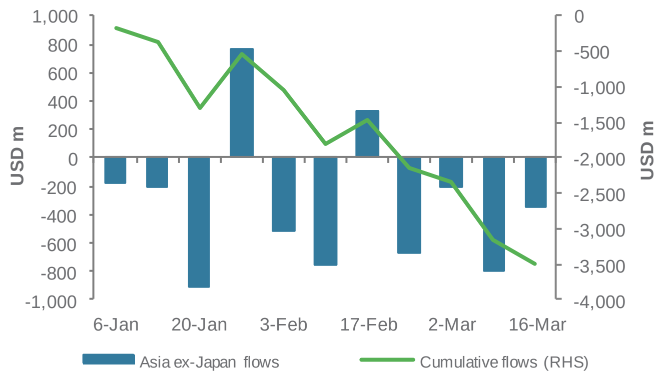
Source: Bloomberg, Standard Chartered

Asia ex-Japan: Remain positive on China, Taiwan more attractive, Singapore less

- Asia equity markets have rallied 9% over the past month as investors discount a slower-than-expected pace of rate increases by the Fed and a weaker USD leading to an increase in investor risk appetite.
- Asia ranks in the middle in terms of our country preferences, comparable with Japan, but above non-Asia EMs and the UK. Within Asia, we prefer China, emphasising our preference for new economy sectors, including technology and consumer services. We would thus avoid exposure to the onshore market, preferring to allocate to MSCI China.
- China has seen a number of positive developments in recent months, which gives us increased conviction over our positive view. These include a pick-up in housing market activity, an easing of margin loan restrictions and an acceleration in narrow money supply growth. All of these are positive equity market developments.
- Our rank order of preference for Asia markets sees Taiwan climbing higher on rising optimism over the outlook for the technology sector and Singapore dropping lower on concerns over the impact of slower global trade on economic growth and bank earnings.
- Equity fund flows into Asia remain negative despite the improvement in equity flows to EM. We note the pick-up in flows to EM is likely related to the improvement in commodity prices. Nevertheless, we see potential for flows to Asia to pick up as sentiment towards China improves.

Asia equity flows remain negative

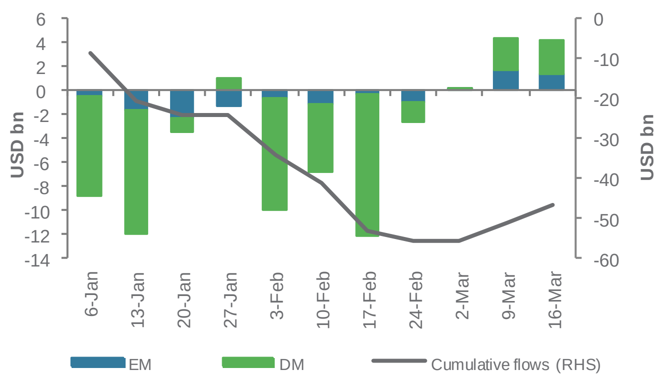
Weekly and cumulative equity flows – Asia ex-Japan



Source: EPFR, Standard Chartered

EM equity fund flows have turned positive

Weekly and cumulative equity fund flows – EM and DM



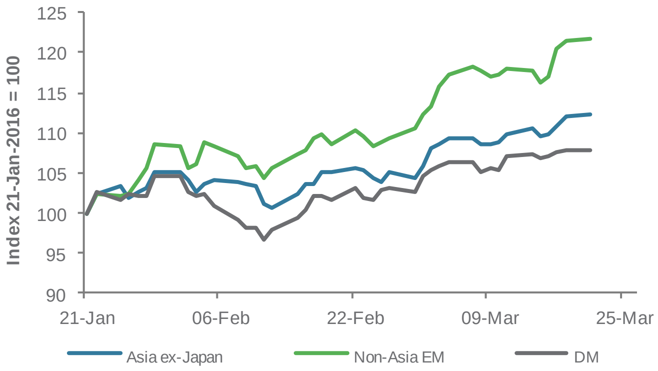
Source: EPFR, Standard Chartered

Non-Asia EMs: Rallying on higher commodity prices

- Non-Asia EM has rallied 22% YTD as investors focus on recovery in energy prices. Additional factors include optimism that the uncertainty in Brazil has been fully reflected in share prices and a change in government would be positive for sentiment, as was the case recently in Argentina.
- We are however, still cautious on non-Asia EMs – it ranks the second lowest in terms of our country/region preferences. While we do believe commodity prices may be in the process of bottoming, we are cautious in extrapolating recent trends. Noting that a bottom in commodity prices is not the same as the start of a new trend.
- Our caution towards non-Asia EMs has been tempered over the past month in light of the recent recovery in commodity prices. Factors that would lead us to become more constructive centre on a reduction in the supply of key commodities, including iron ore and oil. US shale oil production is declining, but production in Saudi Arabia and Russia is at all-time highs. We are also on the lookout for signs of a recovery in DM and/or EM demand, but these remain elusive for now.

MSCI EM is a top-performing market YTD

MSCI EM, DM and Asia ex-Japan



Source: MSCI, Bloomberg, Standard Chartered

Conclusion

We are cautious on the outlook for equity markets, as reflected in our move to neutral last month. We note that the pace of earnings declines is diminishing, which could extend the current rally, which is showing some signs of exhaustion. While we acknowledge commodity prices appear to have bottomed, we do not equate this with a rising trend as the next phase in the cycle. We are positive on Euro area equities, and cautious on the US, Japan and Asia ex-Japan, while non-Asia EMs and the UK are our least preferred markets/regions.

Ranking of our key country preferences

No. 1	Euro area	Most Preferred
No. 2	US	
No. 3	Asia ex-Japan	
No. 4	Japan	
No. 5	Non-Asia Emerging Markets	
No. 6	UK	Least Preferred

Source: Standard Chartered

Commodities

- We expect stable-to-higher oil prices on a 12-month basis, but would not chase this rally higher in the short term.
- A strong gold rally is unlikely and there is little fundamental backing for continued upside in industrial metals, in our opinion.

We believe the recent rally in commodities may have been at least partly driven by the broader rebound in risk assets and weakness in the USD. We are less bearish than before, but the improvement in fundamentals is mixed. Oil arguably faces a somewhat more constructive outlook in the long term, but industrial metals do not.

Evolution of key factors since end-2015

Factor	What has changed since December 2015
Demand	Growth rate forecasts cut slightly for oil. Demand for gold has surprised slightly to the upside but no change in poor metals demand outlook
Supply	Oil and metals over-supply outlook unchanged, but US oil production cuts have accelerated slightly. Inventories remain elevated
Sentiment	Sentiment on commodities has significantly improved recently from excessively negative earlier on
USD	Softer USD a marginal support across the board

Source: Bloomberg, Standard Chartered

Oil

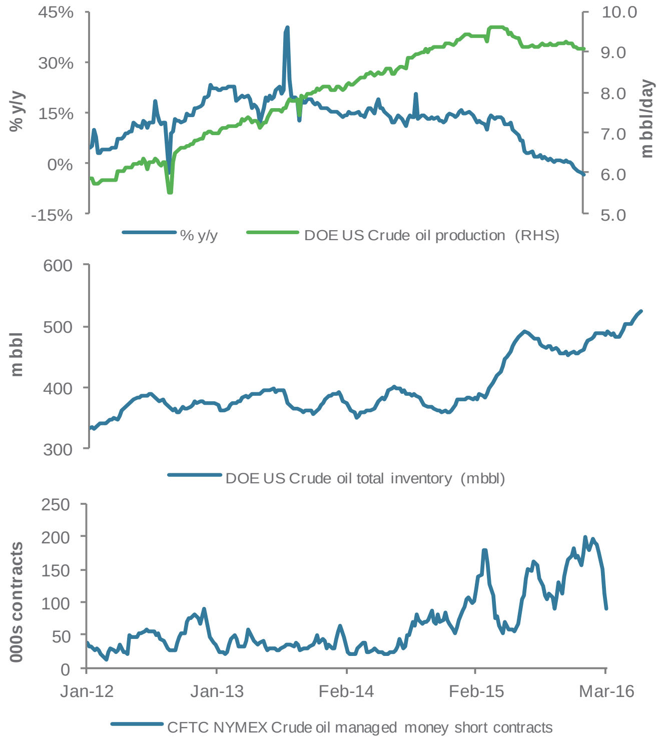
Recent oil rally may have come a bit too soon. While we continue to see the oil market re-balance closer to the year-end and average higher in the USD 45-55 range, we do not expect the path to be smooth. Hence, further gains in oil prices in the short term look less likely, and we would not rule out a pullback.

In the immediate term, a significant improvement in the supply demand-imbalance does not seem likely. While production has shown signs of slowing, particularly in the US, stock levels are still exceptionally elevated to pose any significant upside pressure on price. On the other hand, despite oil demand remaining generally resilient, we have not seen a more meaningful pickup in consumption, even with lower prices.

Hence, we believe the recent rally may have a considerable speculative element to it. The net-short speculative positioning, which was excessive previously, has begun to normalise. Recent newsflow regarding temporary outages in Iraq and Nigeria, as well as the earlier discussion between Saudi Arabia and Russia, may have supported this sentiment.

OPEC supply indicators firm, while non-OPEC signals more supply cutbacks

OPEC and non-OPEC rig counts



Source: Bloomberg, Standard Chartered

Gold

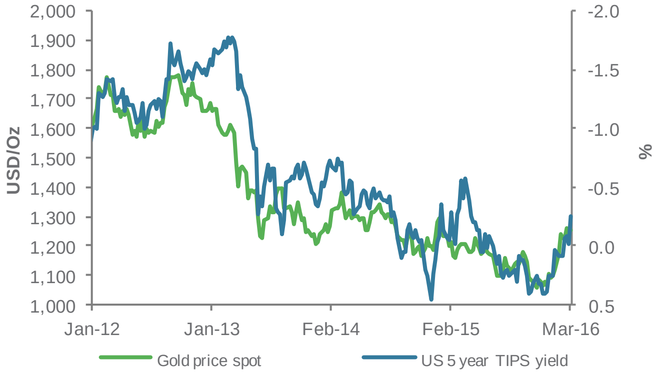
Gold prices may need more support from higher inflation and a weaker US Dollar to keep rallying. Because we believe both look relatively unlikely at this time, we do not expect the rally to extend significantly from current levels, though further downside also looks less likely.

We believe the recent gold rally has largely been driven by lower interest rate expectations and a weaker USD. The implementation of negative interest rates by major central banks has led to a debate on whether additional measures have improved demand for non-yielding gold. In addition, a weaker USD has also supported the rise in gold prices. Recent purchases by central banks, particularly Russia, may have been an additional supporting factor.

However, we do not believe the above factors are supportive for gold over the medium term. First, we believe the scope for the implementation of negative interest rates at the retail level is extremely limited. In addition, we believe that for gold to keep rallying, a more visible deterioration in global growth, significant stress in the financial sector or a complete reversal of Fed rate hike expectations are required.

Decreased real interest rate expectations behind stronger gold prices

Five-year TIPS yields and gold price



Source: Bloomberg, Standard Chartered

Industrial metals

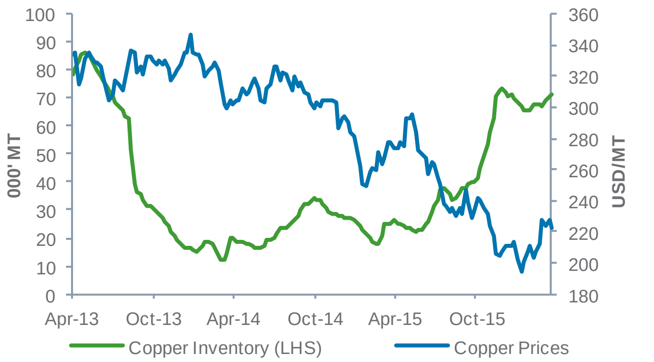
There is no evidence of a turnaround in base metals. We do not expect the rally in industrial metals to have further legs. While on a technical level, there seems to be a rebound of some significance, the rebound may have been a recovery of the excessively negative sentiment earlier in the year.

Major supply and demand indicators do not look promising for higher prices. In major industrial metals such as copper and iron ore, inventories are still considerably elevated. In addition, we have not seen major cutbacks by producers. Demand resulting from new construction activity in China is also not expected to pick up in a big way either.

Speculative long bets, on the other hand, have improved significantly from extremely low levels, leading us to believe in the more temporary nature of the current rally.

Copper inventories remain elevated, suggesting the recent price rebound may not be sustainable

Copper prices vs. copper inventories



Source: Bloomberg, Standard Chartered

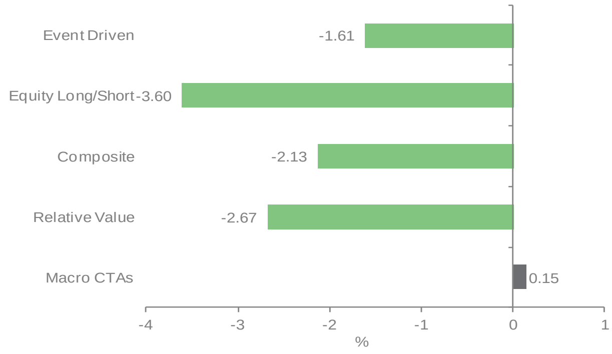
Alternative strategies

- Alternative strategies remain our preferred asset class. Rising volatility, market dispersion, trending markets and continued policy divergence remain supportive factors. Long/short and macro are among our most preferred sub strategies.
- Macro strategies eased somewhat over the past month, as the rebound in risk appetite returned the focus to equity long/short strategies.

The baton appears to be shifting back to equity long/short strategies.

Macro strategies outperformed early in the year, but the baton is shifting back to equity long/short

HFRX sub-strategy indices



For the period 31 December 2015 to 25 March 2016.

Source: Bloomberg, Standard Chartered

A return of risk appetite means strategies such as equity long/short outperformed, while macro strategies took a pause. Alternative strategies as an asset class gained over the past month as equity-focussed strategies gained amid the rebound in equity markets. Against this more constructive backdrop, macro strategies fell back slightly.

Key drivers largely unchanged. Volatility has fallen back in the short term, consistent with the rebound in risky assets, but we expect this to be temporary as volatility more broadly trends higher over the long term. The Fed's reduced forecast for 2016 interest rate hikes arguably scales back the magnitude of likely policy divergence, but the Fed and other major central banks fundamentally remain on opposing directional interest rate paths. Other key drivers – market dispersion and trending markets – remain in place, in our view.

Length and magnitude of equity market rebound are key in the short term. Last month, we pointed out that a temporary underperformance was possible should equity markets rebound strongly given equity long/short strategies, in particular, tend to underperform long-only strategies when equity markets rise sharply. This has largely been the case over the past month, though both long-only equities and equity long/short strategies delivered positive returns. However, we ultimately expect volatility to trend higher over the long term; this is an environment in which long/short strategies tend to offer a much more attractive risk/reward proposition as they offer exposure to equities, but generally with lower levels of volatility.

Our views on the main sub-strategies

Sub-strategy	Our view
Equity long/short	**Positive:** Exposure to equities, but likely with lower volatility relative to long-only
Relative value	**Neutral:** Volatility has improved opportunity set, but liquidity is likely to be a challenge
Event driven	**Neutral:** M&A activity is a positive, but strategy vulnerable to broad market volatility
Credit	**Neutral:** Volatility/Sector stress positive for credit long/short strategies; defaults a risk
Macro	**Positive:** Outperformance during recent volatility reinforces diversification value
Commodities	**Neutral:** Commodity prices a risk, although an eventual rise in oil prices may support
Insurance linked	**Negative:** Insurance losses below average in 2015, which could reverse in 2016

Source: Standard Chartered

Foreign exchange

- Expect limited USD gains in 2016. The EUR may weaken modestly further. However, the JPY is likely to remain rangebound
- Do not chase the AUD higher from here; MYR and IDR to outperform other Asian currencies, but SGD could underperform

Scaling back of US and UK rate hike expectations has seen the USD and GBP lose ground against most major peers. 'Brexit' concerns have also weakened sentiment on the GBP considerably. However, we remain wary of substantial gains in the EUR and JPY, given the risk higher Fed rates could intensify policy divergence. Worries of CNY devaluation are likely to limit gains in most Asia currencies, including the AUD, in our view.

Markets may have become overly pessimistic.

Short term: Refers to a horizon of less than 3 months

Medium term: Refers to a time horizon of 6 to12 months

USD: Caught up in a range

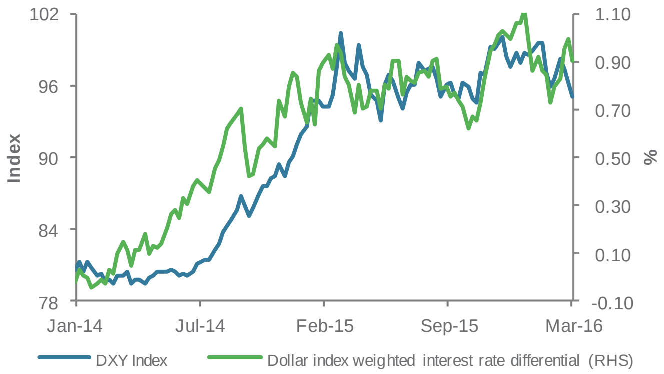
We expect the USD to recover some of its recent losses; however, we do not expect it to breach the past year's highs. In the immediate term, the USD appears to be trading at the bottom of its range; hence, we expect a rebound.

We believe significant USD strength is unlikely in the medium term for two reasons. First, the Fed is likely to hike interest rates cautiously and gradually, being particularly sensitive to USD strength. Second, a modest growth outlook in the US is likely to limit US economic differential over its peers'.

Similarly, we do not expect substantial USD weakness either. First, while diminished, the monetary policy divergence theme remains in place. The US is still likely to modestly hike interest rates, while most other central banks are more likely to add to stimulus measures. Second, fund flows to non-USD assets are likely to be limited without strong growth in Emerging Markets (EM).

US interest rate expectations have been scaled back, weakening the USD

USD Index weighted interest rate differentials, the USD Index and market implied policy rate expectations



Source: Bloomberg, Standard Chartered

EUR: Monetary divergence not dead

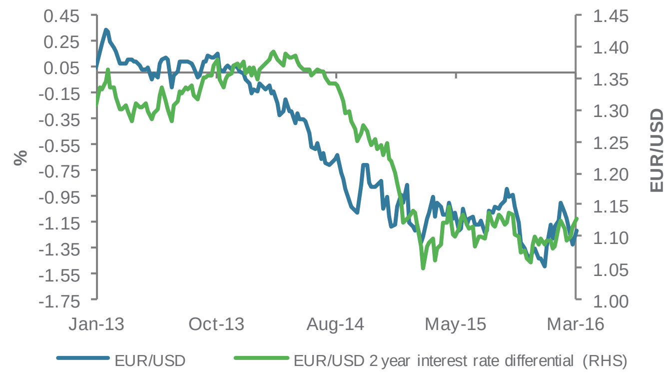
We expect modest EUR weakness over the medium term from current levels. In our view, the monetary divergence theme has diminished following the Fed's softening of its rate hike forecasts. However, we believe it still remains valid to some extent as the Fed still expects to hike rates (even as the ECB keeps policy very easy), just by less than before. We continue to expect one Fed rate hike in 2016, while the Euro area maintains a strong easing stance. As a result, we believe EUR/USD differentials may expand further still from current levels.

The 'Brexit' debate risks creating some volatility in the short term, but we do not see cause for it to be a significant, sustained bearish factor on its own as the Euro area (i.e. the currency union) would still stay intact even in the event of an outcome in favour of 'Brexit' – a crucial difference with worries a few years ago around the Greece crisis.

The EUR has been consolidating in a broad range of 1.05-1.15 for almost a year following a sharp drop, given the lack of a strong catalyst. We believe risks are still tilted to the downside, with a more hawkish Fed as the likely catalyst.

EUR continues to consolidate in the 1.05-15 range, but risks tilted towards the downside

EUR-USD vs. EUR-USD 2-year government bond yield differential



Source: Bloomberg, Standard Chartered

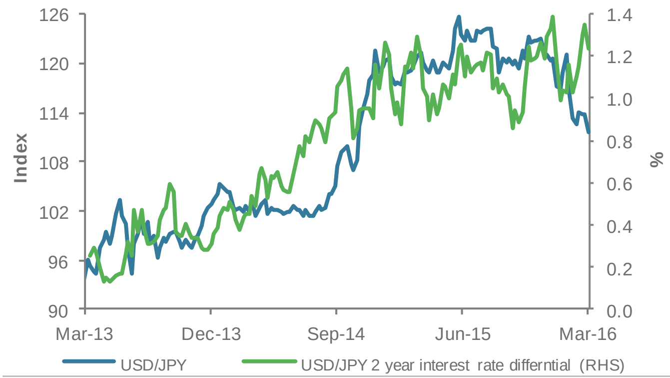
JPY: BoJ may limit further upside

We expect the JPY to remain largely rangebound in 2016, albeit with the risk of moderate weakness in the short term given significant net long-speculative positions.

We believe the BoJ's potential to significantly weaken the JPY through additional quantitative easing (QE) and further negative rates is limited. In addition, a modest and gradual pace of Fed rate hikes is unlikely to result in significant downside, given deep undervaluation and increased JPY demand in a slow-growth and uncertain global economic environment. At the same time, we do not believe the JPY is likely to strengthen significantly. With a weaker JPY a key component of Prime Minister Shinzo Abe's turnaround policy, direct intervention in the currency market, though contentious, cannot be ruled out.

USD/JPY has fallen more than what rate differentials suggest

USD/JPY two-year interest rate differentials and USD/JPY



Source: Bloomberg, Standard Chartered

GBP: Risks in both directions

We see risks to the currency in either direction, given the issue of 'Brexit' is likely to dominate in the short term. On the downside, a vote to leave the Euro area will likely result in significant further GBP losses. This is due to the funding of UK's large current account deficit, which will come into question amid capital outflows. On the upside, a vote to remain in the Euro area may result in a sharp rebound to the previous year's highs before settling in the 1.50-1.60 range. Overall, the economy remains on a reasonable recovery path, while the BoE has highlighted the next interest rate move is likely to be higher.

UK balance of payments exposed significantly due to large current account deficit

UK core balance of payments

Source: Bloomberg, Standard Chartered

AUD and NZD: Following iron ore and dairy prices

We expect modest weakness in the AUD through 2016. While we have upgraded our outlook on commodities, we continue to see weakness in the industrial metals space including iron ore (please see the commodities section on pages 19-20 for more details).

Hence, we do not see AUD's fundamentals improving significantly. Moreover, we believe the RBA is likely to further reduce interest rates should the AUD continue to rally. Weakness in the AUD through last year may also be a tailwind for the domestic Australian economy, which may be compromised with a stronger AUD.

AUD currency fundamentals still largely exposed to iron ore prices; we are not yet constructive

Trade-weighted AUD vs. iron ore prices

Source: Bloomberg, Standard Chartered

Asia ex-Japan: MYR and IDR still stand out

We believe the worst is behind us for Asian currencies. However, we do not believe a significant rally is possible without considerable improvement in the region's growth prospects.

We believe the CNY is likely to remain broadly stable against its reference basket, but expect it to weaken against the USD. However, we believe continued modest weakness of the scale witnessed over the past few years is more likely than an outright devaluation. First, we do not expect a 'hard landing' in China; a muddle-through growth scenario looks more likely. Second, significant devaluation poses the risk of exacerbating outflows, as well as draw the ire of regional and western policymakers alike.

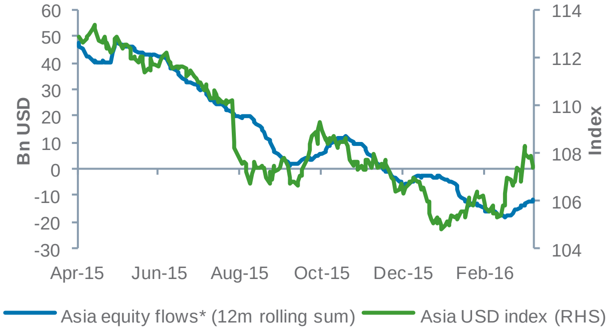
We expect further modest downside in the SGD against the USD from current levels and expect it to underperform regional currencies. Singapore's lacklustre economy and exposure to tepid global and China growth warrant caution.

We continue to see further gains in the MYR and the IDR, which we also expect to outperform the region's currencies versus the US Dollar. For the MYR, exceptional undervaluation, coupled with improving outlook for some key commodity prices, is likely to support the pair, particularly against the USD and SGD. For the IDR, the return of optimism regarding growth following recent reforms and additional policy easing are likely to underpin the exchange rate.

We turn less constructive on the INR. We believe India's weak corporate balance sheets and limited scope of bank lending are likely to overshadow domestic reforms, at least in the short term. Moreover, India is likely to get a limited boost from a cautious monetary stance and a constrained fiscal policy. Furthermore, the INR is overvalued relative to history, and significant strength is likely to experience a pushback from the central bank.

The reversal in equity flows into Asia has coincided with the turn in Asian currencies against the USD

Asian currencies vs. Asia equity inflows



Source: Bloomberg, Standard Chartered

Multi-asset investing in the current environment

- Our multi-income allocation benefitted from the recent rally in risk assets.
- We feel this offers an opportunity to shift the risk profile of the multi-income allocation to a more conservative stance, especially for those without access to alternative strategies.
- For investors with access to alternative strategies, we would also advocate substituting some directional or market-linked exposure with a multi-asset absolute return strategy

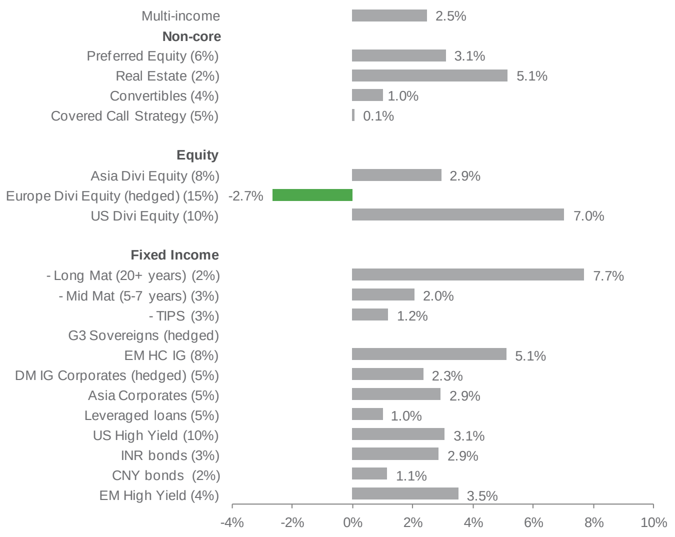
In recent weeks, risk assets have received a boost following dovish comments from central banks. The Fed scaled back its rate hike expectations, and we saw policy easing from the ECB and growth-supportive steps from China. However, still weak earnings expectations and slowing economic growth keep us cautious on a 12-month horizon.

Our multi-income allocation benefitted from this recent rally in risk assets, delivering performance of 2.5% on a total return basis since we published our Outlook 2016 (or 3.4% over the past month). Performance has been broad-based, with equity and fixed income assets both playing a role. Within dividend equity, US was a key contributor, followed by Asia, with Europe lagging the pack. On the fixed income side, Emerging Market (EM) USD sovereigns (both Investment Grade [IG] and High Yield [HY]) were strong contributors alongside US HY bonds.

We feel this recent rally provides an opportunity to partially shift the risk profile of the multi-income allocation to a more conservative stance, consistent with our view to move to a more balanced exposure between equities and bonds. In our Outlook 2016 publication, we highlighted active risk management as a key feature in managing a multi-income allocation in 2016. As a result, we reduce our overall equity allocation to 25% from 33%. While equity assets could deliver positive returns, the level of risk required to generate these returns could be a challenge. Stating this differently, there are opportunities to generate similar levels of yield and returns within the fixed income space while reducing the overall level of portfolio risk.

Multi-income has performed well since Outlook 2016

Performance of multi-income allocation*



11-Dec-2015 to 25-Mar-2016
Source: Bloomberg, Standard Chartered

Income, capital growth and drawdown potential for multi-income assets

Asset Allocation (Multi-Asset Income)	Income Potential	Capital Growth	Drawdown potential	Comments
Fixed Income	Yellow	Yellow	Yellow	Portfolio anchor; source of yield; some interesting ideas but not without risks
Equity Income	Yellow	Yellow	Red	Key source of income and modest upside from capital growth
Non-core Income	Green	Yellow	Yellow	Useful diversifier for income and growth; yield comparable to equity but lower drawdown potential

Source: Standard Chartered

We allocate the proceeds from our reduction in equity to corporate credit. A portion of the proceeds goes to US HY bonds, which offer a lower-volatility alternative to gain exposure to US corporates than equities. While the asset class is exposed to weakness due to oil price movements, the yield on offer adequately compensates for the risks, in our view. In addition, as highlighted in our previous publications, we advocate holding a mix of IG and HY in the corporate credit space. We allocate the balance of the proceeds to raising our allocation in Developed Market (DM) IG corporate credit.

In local currency bonds, we close our position in the CNY as the yield on offer does not look attractive in light of potential currency depreciation. We raise our allocation to Asia USD IG corporate bonds marginally. This is an asset class we remain comfortable with, as the region is in a better economic shape than others, has lower exposure to commodities and is supported by strong local demand. That said, we acknowledge the challenges China's slowdown could pose to the credit quality and, hence, prefer exposure to IG bonds.

As we move into later stages of the economic cycle, playing the diversification card through a series of market-linked (directional) strategies in equity and fixed income is becoming more challenging. With this is mind, we suggest income-focused investors, especially those without access to alternative strategies, adopt a more conservative stance within their income allocation. For investors with access to alternative strategies, we also advocate substituting some of their market-linked exposure with a multi-asset absolute-return strategy. Diversification by investing in assets that have low correlation (relative value, hedging) to traditional assets should help protect investors during more frequent periods of pullbacks we might experience over the course of the year.

Updated weights for 2016 multi-income allocation (USD)

Asset Class	Weight
Fixed Income	**58.0%**
EM High Yield	4.0%
INR bonds	3.0%
US High Yield	15.0%
Leveraged loans	5.0%
Asia Corporates	7.0%
DM IG Corporates (hedged)	8.0%
EM HC IG	8.0%
G3 Sovereigns (hedged)	
- TIPS	3.0%
- Mid Mat (5-7 years)	3.0%
- Long Mat (20+ years)	2.0%
Equity	**25.0%**
US Divi Equity	8.0%
Europe Divi Equity (unhedged)	12.0%
Asia Divi Equity	5.0%
Non-Core	**17.0%**
Covered Call Strategy	5.0%
Convertibles	4.0%
Real Estate	2.0%
Preferred Equity	6.0%
Total	**100.0%**

Source: Standard Chartered

Disclosure appendix

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