Standard Chartered
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Contents

Chart 1. S&P 500 short term technicals looking slightly stretched

Indicator	Signal
Current level vs. 200 DMA	
MACD (Momentum) Daily	
% stocks above 200 DMA	
Relative Strength Index (RSI)	
VIX	
MACD (Momentum) Weekly	
Advance/decline ratio	

Source: Bloomberg, Standard Chartered

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Stay invested and carry on

- **Some technical and sentiment indicators are starting to look stretched, but there is still a lot of money on the sidelines.** Equities have continued to climb the 'wall of worry' as expected. While some market indicators (Chart 1) are flashing amber with regards to a potential pullback, it is important to note 1) there remains plenty of investable cash waiting for a better entry point and 2) this is a seasonally strong period for equities. Therefore, we expect any pullback in global equities to be short-lived and limited in severity (less than 5%), as has been the case in 5 out of the 6 pullbacks so far this year. (Chart 2)

- **We would not be looking to significantly reduce equity exposure ahead of any pullback** – which could take place from significantly higher levels – but rather look to increase allocations on any pullback.

- **The experience 12 months ago is instructive.** Our November Global Market Outlook last year flagged the risk of a 6-10% correction for the US stock market. However, we highlighted the risk was investors would miss any opportunity provided by the market decline. Sure enough, the US market fell around 7% (due to fiscal cliff concerns), but recovered very quickly. Our experience is most investors started to increase equity exposure only in January, when the S&P500 had already surpassed its October peak. The risk is history repeats itself.

- **Still cautious on assets vulnerable to tapering such as investment grade USD bonds, Asian local currency bonds and the AUD.** Last month, we highlighted the rally from the August low presented an opportunity to reduce exposure to USD investment grade bonds, Asian local currency bonds and the AUD. Since then, all 3 assets have fallen significantly. We remain negative on these assets as speculation of Fed tapering is likely to place upward pressure on long term USD yields and downward pressure on non-USD currencies.

Chart 2. Developed market equities continue to climb the wall of worry
S&P 500

Source: Bloomberg, Standard Chartered

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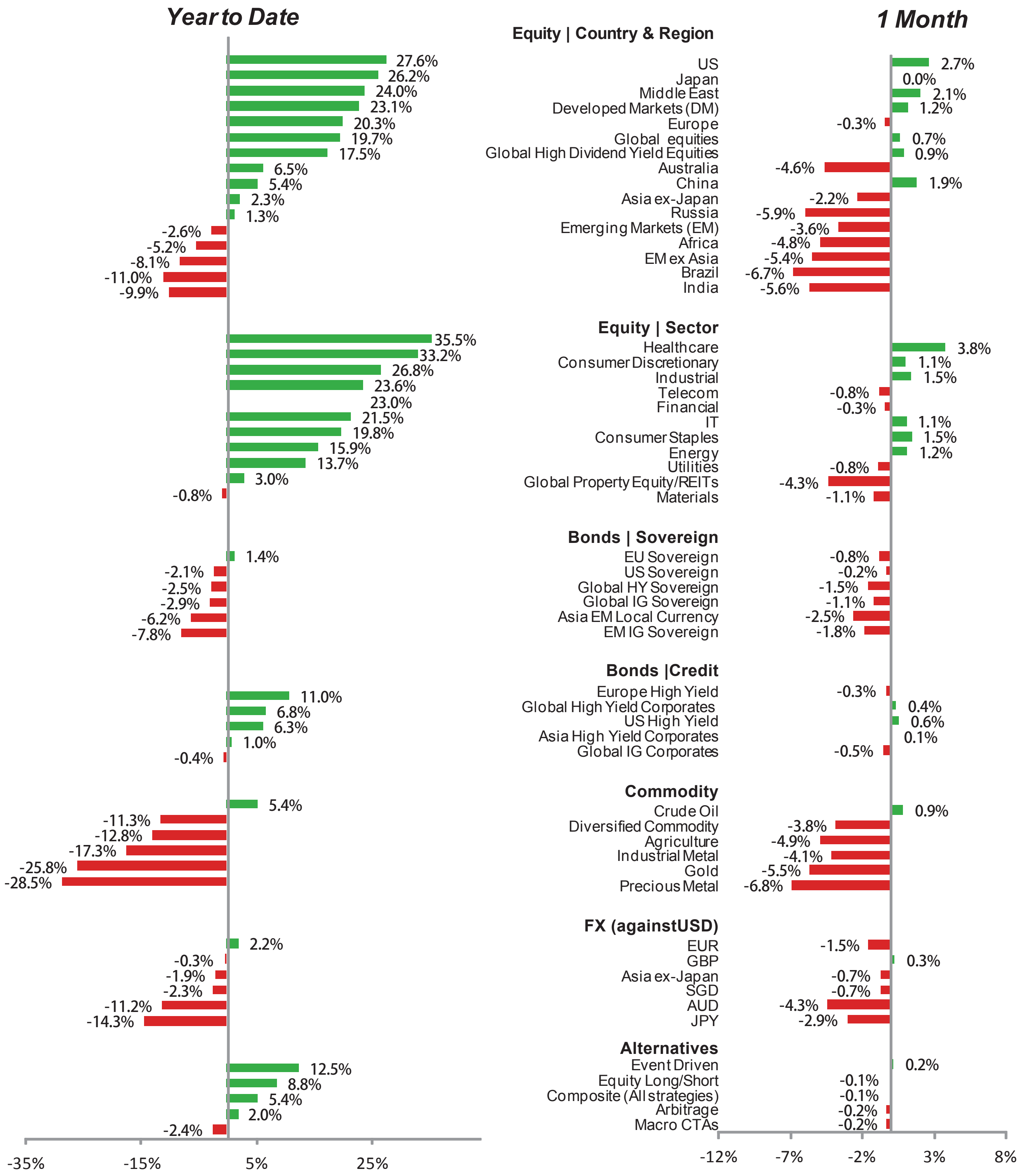
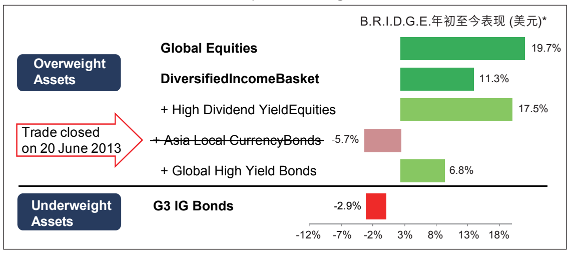
Chart 3. Market Performance Summary (Year to date & 1 Month)*



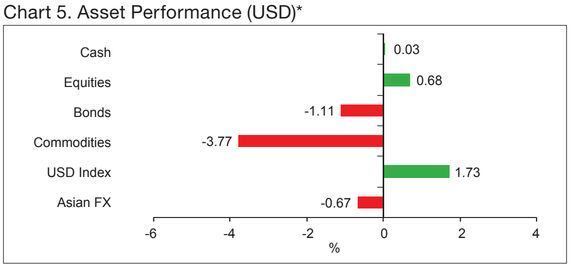
All performance shown in USD terms unless otherwise stated.
*YTD performance data from 31 Dec 2012 – 21 Nov 2013 and 1 Month performance from 21 Oct – 21 Nov 2013
Sources: MSCI, JP Morgan, Barclays Capital, Citigroup, Dow Jones, HFRX, FTSE, Bloomberg, Standard Chartered

Chart 4. B.R.I.D.G.E. themes performing well so far



* For the period 31 Dec 2012 to 21 Nov 2013
* Income basket is equally weighted performance of global high dividend yielding equities (MSCI ACWI High Dividend Yield USD),Global HY bonds (BarCap Global HY TR USD) and Asian local curr bonds (BarCap Asia Local Net TR USD, until 20 June)
Source: Bloomberg, Standard Chartered

Chart 5. Asset Performance (USD)*



* For the period 21 Oct to 21 Nov 2013
Indices are JP Morgan US 3M Cash Index, MSCI AC World TR Net, CITI World BIG, DJ-UBS Commodities, DXY and ADXY
Source: Bloomberg, Standard Chartered

Investment Strategy: Stay invested (Chart 4 ,5, 6)

Over the next 12 months, we expect:

- equity markets to perform well, led by Developed markets (DM). Asia ex-Japan equities expected to generate positive returns
- any global equity market pullback to be limited to 5%
- DM high yield bonds to generate moderately positive returns

Developed market equities have benefited from the US government shutdown. As we highlighted last month, global equities have benefited from the US government shutdown to the extent that this influenced the Fed to delay tapering of quantitative easing. Global equities were up marginally over the past month. This said, it is interesting to note that, even in an environment dominated by a further delay to tapering, Developed markets actually outperformed again.

We continue to have a preference for DM equity markets (vs EM) on a 6-12 month basis. We expect liquidity conditions in Europe and Japan to continue easing. Even when Fed tapering begins, we believe this will have a limited impact on the US equity market. However, with tapering back on the agenda, liquidity conditions in EM may become less supportive. Meanwhile, China is proactively trying to control credit creation to limit the damage from excessive credit creation in response to the global financial crisis.

Most equity markets expected to generate positive returns, especially in local currency terms. We expect EM/Asia ex-Japan (AXJ) equities to under-perform DM over the next 6-12 months. That said, we believe AXJ markets will generate positive returns given still-reasonable consensus earnings growth forecasts and a 2.6% dividend yield. We are overweight Korea and Malaysia markets within Asia. We are also constructive on China due to lower currency risks.

Cautious on Asian bond markets. With tapering coming back on the agenda, we believe that both USD and local currency bonds are vulnerable near term. Our view that the short rally in Asian local currency bonds may be overdone has proved accurate with the asset class down 3% over the past month. We remain cautious looking forward. Meanwhile, we have downgraded Emerging market investment grade bonds to Underweight.

We continue to see DM equities as the favoured asset class on a 12 month view. EM underperformance is expected to continue as tapering expectations start to rise once again.

Chart 6. Asset allocation summary*

Asset Class	Relative Outlook	Start Date
Cash	UW	Feb-12
Fixed Income	UW	Jan-11
Equity	OW	Aug-12
Commodities	N	Nov-13
Alternatives	OW	Jun-13

Sub-asset Class		Relative Outlook	Start Date
Cash		UW	Feb-12
Fixed Income	DM Investment Grade	UW	Jan-11
	EM Investment Grade	UW	Nov-13
	DM High Yield	OW	Sep-11
	EM High Yield	N	Sep-12
Equity	US	OW	Apr-12
	Europe	OW	Jul-13
	Japan	N	Apr-13
	Asia ex-	UW	Jun-13
	Other EM	UW	Aug-12
Commodities		N	Nov-13
Alternatives		OW	Jun-13

Legend
Start Date - Date at which this tactical stance was initiated
OW - Overweight N - Neutral UW - Underweight
DM - Developed Markets
EM - Emerging Markets

*Source: Standard Chartered, *'start date' reflects the date at which this tactical stance was initiated*

Economic and policy outlook

Data retains strengthening trend (Chart 7)

- In the **US**, we have seen continued strength in business confidence with labour market data showing signs of improvement. Housing market indicators are mixed.
- In **Europe** and **Japan**, the data points to a sustained recovery. Business confidence remains firm. European lending remains weak, but there are signs this may change. Bank stress tests are key.
- In **Asia**, the economy has stabilised, but we continue to believe the Chinese authorities do not want too strong a rebound. The Third Plenum points to significant reform in the months and years ahead.

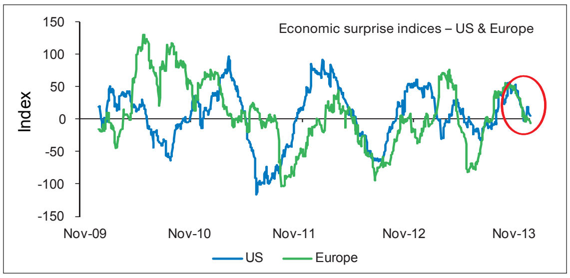
US: Confidence in the recovery rises, but not surprising on the upside

- **Employment data rebounds.** The October employment report was significantly better than expected with net job creation coming in above expectations, while historical data was revised higher. The three month average of net job creation is now just over 200,000. (Chart 8) Average wages also ticked marginally higher to 2.2%. This, together with rising house prices, should help to support consumer spending in the coming months.
- **Housing market data mixed.** Housing market indicators generally remain in a broad uptrend, although most data has softened since the Fed started discussing the tapering of quantitative easing in May. The exceptions are house prices and new home sales. Mortgage applications have been the hardest hit, but appear to be stabilising. (Chart 9)However, the impact of rising long term yields – a trend that we expect to continue – on housing market activity may temper optimism.

Fed tapering rising on the agenda again

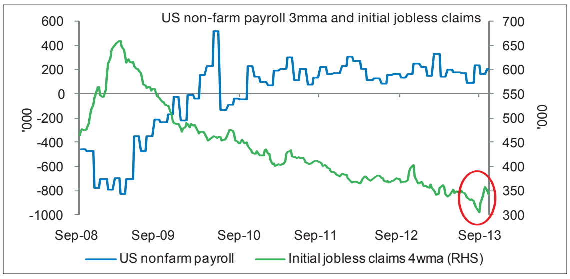
- In September, the tapering of quantitative easing was delayed due to 1) weak economic data and 2) uncertainty over the impact of the October government shutdown/debt ceiling talks on the economy. With economic data starting to turn the corner, we continue to believe Fed tapering is most likely to occur in Q1 2014.

Chart 7. Economic surprises mixed



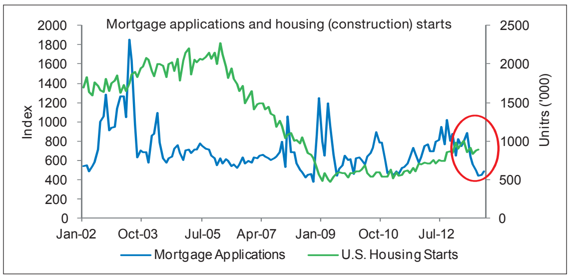
Source: Citigroup, Bloomberg, Standard Chartered

Chart 8. Labour market situation relatively robust



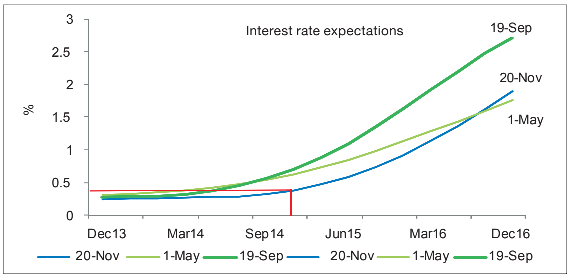
Source: Bloomberg, Standard Chartered

Chart 9. Housing market still stabilising



Source: Bloomberg, Standard Chartered

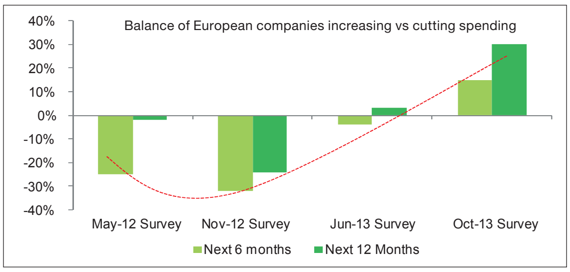
Chart 10. Fed tapering likely in Q1, but Fed will be keen to manage interest rate expectations



Source: Bloomberg, Standard Chartered

- To be fair, the arguments are reasonably balanced. With inflation benign and further debt ceiling talks due in the New Year, there are good reasons to delay the decision further. This view was reinforced by comments from Fed chair nominee Janet Yellen that the economy still requires significant monetary policy accommodation. Therefore, we see a low probability of any tapering taking place this year.
- However, the shift in the Fed FOMC's composition in January means the average voting member will be more hawkish than now. This is expected to shift the focus towards the risks associated with extending QE and away from its benefits.
- In order to manage the transition process to more normalised monetary policy settings, we expect the Fed to de-link QE tapering from interest rate rises by introducing more stringent unemployment triggers before interest rate hikes will be considered. The aim here is for the Fed to signal that it is gradually taking its foot off the accelerator, but certainly not hitting the brakes until well into 2015. (Chart 10)

Chart 11. European companies looking to increase capital expenditure

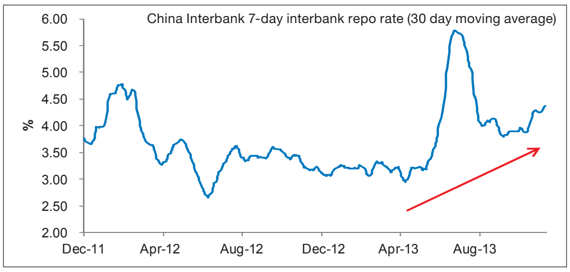


Source: Credit Suisse, Standard Chartered

Chart 12. US businesses have been more upbeat on their prospects than China businesses since 2009

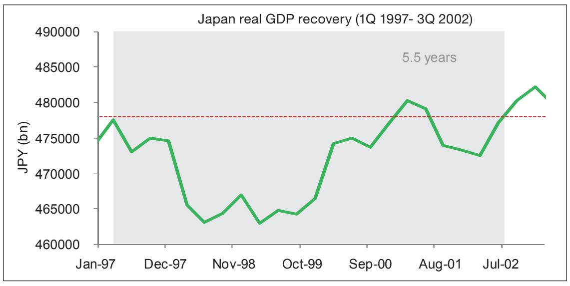
Source: Bloomberg, Standard Chartered

Chart 13. Trend in China is for tighter monetary policy



Source: Bloomberg, Standard Chartered

Chart 14. 1997 experience highlights consumption tax hike risks



Source: Bloomberg, Standard Chartered

Europe: Economy still in modest recovery mode, UK outperforms

- **Europe continues to recover, despite weak bank lending.** Business confidence data remains firm, but consistent with a modest recovery. (Chart 11) Bank lending continues to fall against the backdrop of the forthcoming bank Asset Quality Review and stress tests. However, the pace of tightening of lending conditions is slowing, which is a positive sign.
- **Rate cut highlights Draghi's desire to support the economy.** Inflation's dip to 0.7% was most likely the trigger for the European Central Bank to cut interest rates once again to 0.25%. This reiterates the ECB's desire – German dissent notwithstanding – to ensure the economy remains on a recovery path and avoids a deflationary outcome. Of course, the true test would come if inflation continues to fall and requires the ECB to implement unconventional stimulus measures to push inflation higher. This would clearly be fought more aggressively by many members at the ECB.
- **UK economy outperforms Bank of England expectations.** The BOE has revised higher its 2013 and 2014 growth forecasts and indicated that interest rates may rise 9 months earlier than previously expected, in 2015 rather than 2016. This is based on significantly stronger economic readings in recent months.

Asia: Japan recovering, positive surprises in Asia ex-Japan wane

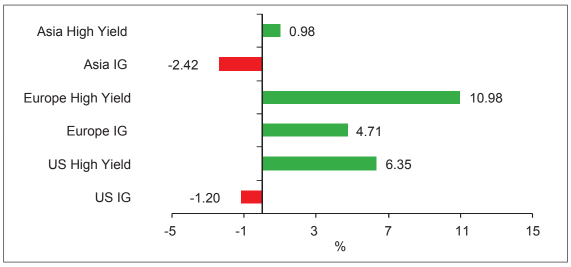
- **Japan: Waiting for the consumption tax.** The Japanese economy has started to surprise on the upside again and the positive trend for growth forecasts remains intact. The key risk here is the consumption tax hike in April 2014. The last time the consumption tax was hiked (April 1997), the economy fell back into recession, only regaining the pre-hike real GDP level on a sustainable basis in 2002. (Chart 14) While there are reasons to believe this time will be different – including the offsetting supplementary budget and a more aggressive central bank – the risks are very real.
- **China: Muddle through.** Deleveraging is shifting from Developed markets to Emerging markets, in our opinion, China included. We believe this will mean growth in China will be capped. We are not looking for growth to officially decelerate below 7%, but it may feel weaker from time to time. (Chart 12)
- **Policy:** We have seen another spike higher in the 7-day interbank repo rate with a trend increase seen over the past 12-18 months. We believe this is indicative of the **Chinese authorities trying to constrain credit growth.** We expect policy to be more restrictive in the coming months. (Chart 13)

Rest of Asia:

- **Growth still relatively tepid.** The wider Asian region appears to be seeing the initial benefits of the recent pick-up in the global economy. Growth is expected to pick up as we move into 2014.
- **Fed tapering to create challenges.** We believe that selected countries – particularly Indonesia, India, Thailand and, to some extent, Malaysia – will experience increased pressure on their currencies. As we come closer to tapering, this may not be as dramatic as in the May to August period, but it should reinforce the bias for monetary policy to tighten.

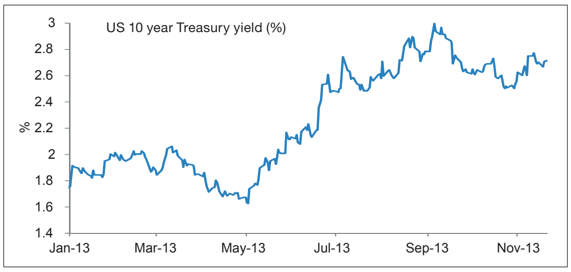
Gradual global economic recovery likely with the growth differential between EM and DM expected to narrow further. China and the US lead a shift away from a focus on monetary stimulus.

Chart 15. Performance of Fixed income YTD* (USD)



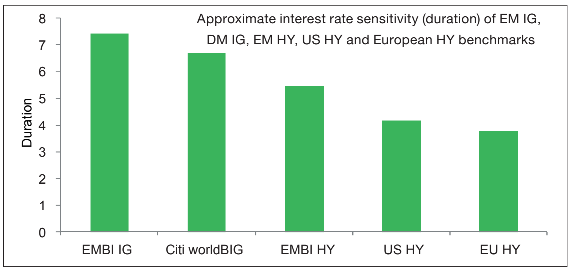
* For the period 31 December 2012 to 21 Novmeber 2013
Indices are Barclays Capital US Agg, US High Yield, Euro Agg, Pan-Euro High Yield, JPMorgan Asia Credit Index
Source: Barclays Capital, JPMorgan, Bloomberg, Standard

Chart 16. Yields have crept higher despite the delay in Fed tapering



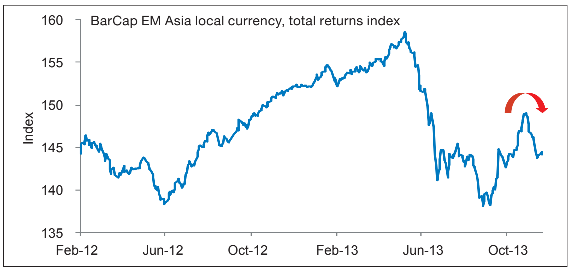
Source: Bloomberg, Standard Chartered

Chart 17. EM IG bonds carry the greatest interest rate sensitivity



Indices: JP Morgan Emerging Market Bond Index (EMBI) IG, Citi World Bond Index IG, JP Morgan EMBI HY, Barclays US HY, Barclays Pan-European HY
Source: Bloomberg, Standard Chartered

Chart 18. Asia local currency bonds continue to weaken, as expected



Source: Bloomberg, Standard Chartered

Fixed Income – Underweight (Chart 15)

We retain our G3 government bonds Underweight. We believe the creep higher in US Treasury yields is unlikely to reverse on a sustained basis.

We reduce Investment Grade EM sovereigns to Underweight (from Neutral earlier) in an effort to further reduce exposure to interest rate-sensitive assets.

Developed market high yield remains our preferred corporate credit exposure, but we are less sanguine on Emerging markets HY.

G3 and Emerging market sovereign bonds:

- **Fed Chair nominee Yellen's comments do not alter the case for gradually higher Treasury yields, in our view.** We note the historical spread between 10 year and 3 month yields (the 10Y-3m yield curve) has been as wide as 360-380 bps many times before in relatively recent history (Chart 16). This means it is quite realistic to expect the 10-year yield to reach 3.5%-3.75% in 12 months' time even if short term rates do not rise significantly.
- **Long-term, we continue to expect Treasury yields to move higher.** In the short term, a slower pace of gains or even a very brief retracement remains possible due to somewhat indecisive technicals.
- **We reduce Emerging market Investment Grade (EM IG) sovereign exposure to Underweight (from Neutral earlier).** The EM IG asset class has a greater sensitivity to USD interest rates than global investment grade bonds (likely due to the longer-term nature of debt EM sovereigns have issued). (Chart 17) Given our view of higher US Treasury yields longer term and the relatively low yields on this asset class, we do not believe EM IG bond investors are compensated for the risk of materially higher yields.

Corporate credit (USD):

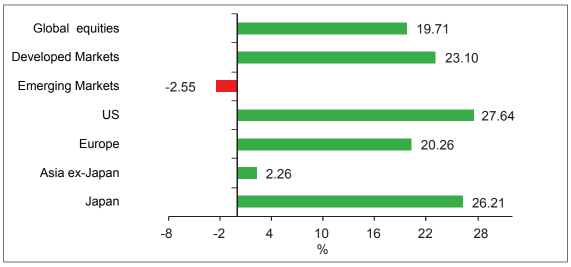
- **Developed market high yield credit remains attractive relative to other fixed income asset classes, in our view.** Our focus remains on diversified exposure to both US and European HY, though we reiterate total returns are likely to be fairly moderate if US Treasury yields rise.
- **Increasingly attractive yields square off against rising credit risks in EM HY. Stay neutral.** Yields on EM HY corporate credit (and sovereign debt, for that matter) continue to offer a premium over those available on Developed markets. However, we continue to believe these remain largely justified. Ratings downgrades continue to outpace upgrades across the EM HY credit universe, on average, while HY sovereigns continue to face their own challenges. Increasingly high yields mean they may look attractive at some point, but we feel the asset class is likely to face more weakness in the short term.

Local currency bonds: (Chart 18)

- **FX and credit (in the CNH market) are key risks in Asia local currency bond markets.** We would not be adding further exposure at current levels as recent weakness has room to extend, in our opinion.

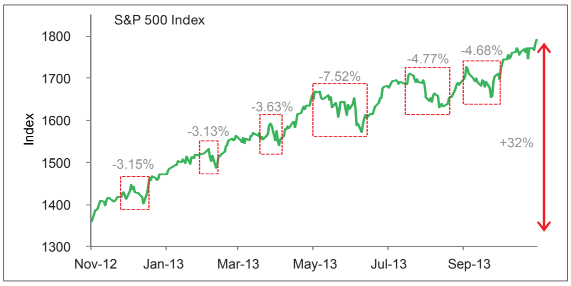
Conclusion: Overweight Developed market HY. US Treasury yields likely to rise further long-term. Underweight G3 and EM IG sovereign bonds.

Chart 19. Performance of Equity markets YTD* (USD)



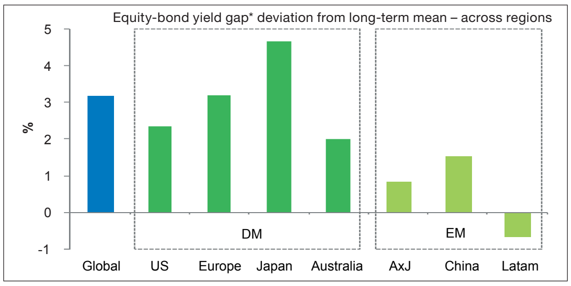
* For the period 31 December 2012 to 21 November 2013
Indices are MSCI World TR, MSCI Emerging Markets TR, MSCI USA TR, MSCI Europe TR USD, MSCI Asia ex-Japan TR USD, MSCI Japan TR USD
Source: Bloomberg, Standard Chartered.

Chart 20. Buying the dips has worked well this year



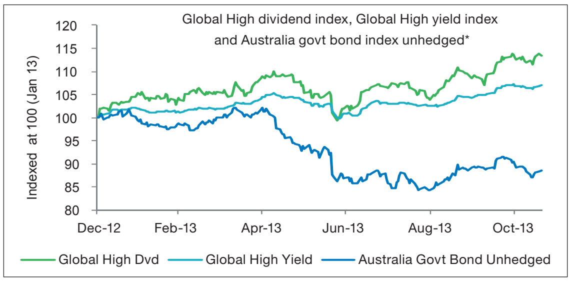
Source: Bloomberg, Standard Chartered

Chart 21. Equities still relatively cheap against bonds



*Equity earnings yield –10y sovereign bond yield
Source: MSCI, Datastream, Bloomberg, Standard Chartered

Chart 22. High dividend yield theme has worked relatively well against other popular income assets



*Indices used MSCI AC World high dividend, Barcap global high yield Unhedged index, Citigroup Australia govt 5+ year (All in USD terms)
Source: MSCI, Barcap, Citigroup, Bloomberg, Standard Chartered

Equity – Overweight (Chart 19)

Global equities have had a great run so far this year up over 19.7% on a total return basis. Developed markets (DM) have significantly outperformed, up some 23.1% while Emerging markets (EM) have actually fallen slightly. Our preferred markets, the US and EU, have performed well.

While technicals look stretched to some extent, we still favour equities on a 12 month outlook, advocating that underweight investors consider using any weakness to move to an Overweight position. 'Buying the dip' has worked extremely well this year and any short term pullback is likely, in our opinion, to be more technical rather than secular in nature. (Chart 20)

We maintain our preference for DM over EM and are a little more constructive on Japan as the technicals would indicate an increasing likelihood of a break-out to the upside.

Even after the significant rally this year, equities continue to look attractive relative to bonds and cash: (Chart 21, 22)

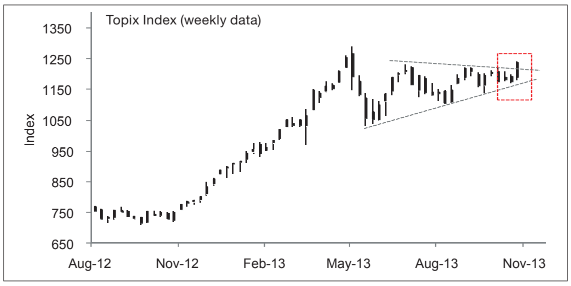
- At the global level, the market still trades with a significant equity risk premium (the excess return that the market provides over the risk free rate). This is particularly the case in DM, as we have seen yields pick up in parts of EM.
- While valuation indicators have crept up, global equities market are, in our opinion, fairly priced at these levels relative to history. However, there is still some potential for equities to re-rate further, given easy monetary conditions in most of the Developed markets.
- According to history, the fourth quarter also tends to be positive for equities and we expect markets to be marginally higher by year end.

We remain more constructive on DM vs. EM equities:

- Even with the significant performance differential this year between DM and EM, we don't yet believe EM valuations are sufficiently attractive to change the view. Stripping out China Financials and Korea, Asia ex-Japan equities are not as cheap as they may first appear, relative to history, or indeed DM.
- Macro expectations continue to trend down for EM and have been more resilient in the case of DM.
- Tapering may also be more negative for EM than DM. It is worth noting that in some EM markets, bond yields are higher than the equity yield, a reflection of the risks being priced in by the bond markets.
- Lastly, we are constructive on the USD, expecting it to strengthen relative to EM currencies.

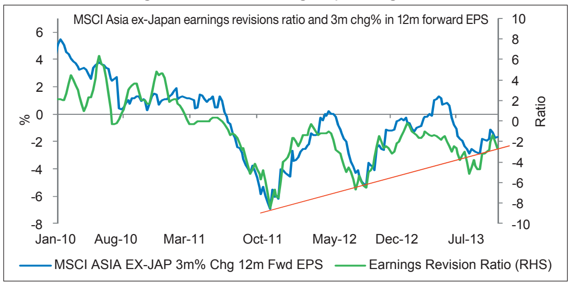
In terms of DM, we remain Overweight the EU and the US. We are increasingly constructive on Japan where the technicals would suggest a breakout to the upside.

Chart 23. Looking for a breakout to the upside of Topix



Source: Bloomberg, Standard Chartered

Chart 24. Earnings outlook showing improving trend



Earnings revision ratio=Net upgrades / (Upgrades + Downgrades)*100
Source: Datastream, Standard Chartered

Europe: The European market has performed well since we went overweight in July, rising over 10% and outperforming the global benchmark by 3.3%. We continue to like the market, expecting low double-digit returns over the next 12m months, driven by earnings growth and dividend yield. The European market has a dividend yield in excess of 3.4%.

The income theme is still important to many investors and, in this regard, we still prefer high dividend yielding equities over bonds. We do note, though, that the market, as measured by fund manager surveys and fund flows, has become very optimistic on Europe. Room for short term disappointment has thus increased since we went OW and it is important now for economic and earnings growth to at least meet expectations. Q3 earnings were largely in line, but expectations for Q4 look optimistic.

US: The US remains a preferred market and has been an OW since April 2012. While margins are not expected to widen further, as anticipated in the case of Europe, earnings are still supportive (continuing to beat expectations) and the Fed is still very committed to providing liquidity.

From a sector point of view, we have been highlighting a preference for early/defensive cyclicals vs. the 'expensive defensives', such as Staples, Utilities and Telcos. This is particularly the case in the US, where we see Technology as being a key sector to have exposure to. While the sector has marginally outperformed at the global level this year, it has underperformed in the US. Recent quarterly earnings have, though, surprised to the upside and we are starting to see some positive fund flow to the sector. Given our expectation that corporate capex (ex Energy and Materials) will pick up in 2014, we believe Technology will perform relatively well in 2014.

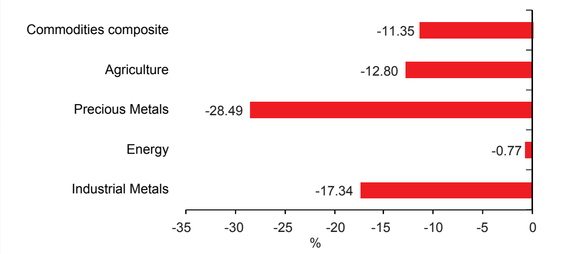
Japan: The market remains a Neutral, but we are becoming more constructive. Since June, we have seen the Japan market make higher lows and finding support on a rising trend line. The key resistance of c.1220 on the Topix has recently been broken and this should, in our opinion, lead to further upside in the short term. (Chart 23) Given the expectation that the yen will weaken further, we would keep exposure hedged in currency terms.

Asia ex-Japan and other EM: We remain Underweight both regions. This is not to say they will generate negative returns, but they may lag DMs.

- Overall, valuations for Asia ex-Japan equities remain cheap relative to history, whether it is in terms of price-to-book and price-to-earnings ratios. They are also cheap against bonds, though this picture is changing with local bond yields creeping higher in recent months. (Chart 24)
- We prefer the North Asia to the South/Southeast Asia markets, given more attractive relative valuations in the former. North Asia markets are also less vulnerable to potential capital outflows from Fed tapering.
- Near term, optimism surrounding China's reforms and a delay to Fed tapering could support the region's performance. However, it is important not to forget that 1) the eventual tapering by the Fed would likely lead to tighter monetary conditions in South/Southeast Asia and 2) policy reforms, while positive longer term for the Chinese equities, could be a drag on growth in the short-term.

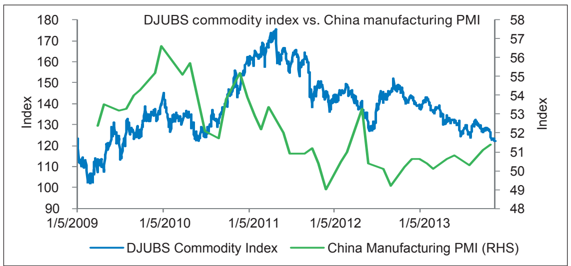
Conclusion: We expect Equities to continue 'climbing the wall of worry'. We are cognisant that it has become a very policy driven environment, but for the moment we do not consider it the right time to fight the Fed/ECB or BoJ. We continue to prefer equities to bonds and would suggest underweight investors consider averaging into equities, with a focus on Developed markets.

Chart 25. Performance of Commodities YTD* (USD)



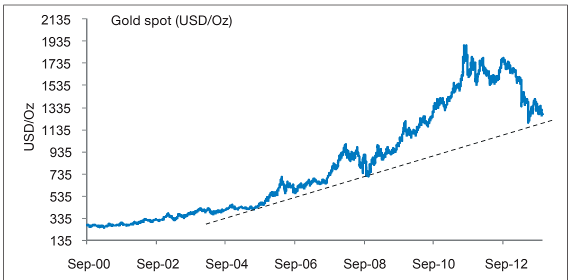
* For the period 31 December 2012 to 21 November 2013
DJUBS, DJUBS Agri, DJUBS Precious metals, DJUBS Energy, DJUBS Industrial metals
Source: DJUBS, Bloomberg, Standard Chartered

Chart 26. China growth has not been supportive for commodities



Source: Bloomberg, Standard Chartered

Chart 27. Break below long-term trend line would be very bearish for gold



Source: Bloomberg, Standard Chartered

Commodity – Underweight (Chart 25)

We close our Underweight on commodities, returning to a neutral view, as we believe the asset class' extended period of weakness now prices in a greater proportion of the risks. However, the key rationale behind the shift is really one of increasingly limited downside risk. We still struggle to see why prices would turn significantly higher from here.

Within commodities, our views are unchanged. We remain Underweight and bearish Gold, which continues to weaken despite accommodative signals from the Fed. We remain Neutral on base metals as further details from China's Third Plenum do not provide any reason to expect demand to rebound. (Chart 26) Finally, we still believe oil has room to outperform other commodities, though weak seasonality suggests absolute returns are likely to be very unexciting.

We remain Underweight gold. Fed Vice Chair Yellen comments that indicated the US economy was still in need of monetary stimulus should have been a source of short-term support for gold. However, gold instead fell 5.5% over the course of the past month, dropping firmly below USD 1300. While technicals still argue a short-term rebound is possible, it appears increasingly likely that any such rebound may be capped at USD 1300. A break below the long-term trendline (Chart 27) would likely lead to an acceleration in weakness.

We, therefore, believe an Underweight and bearish view on gold remains warranted:

- The inflation-adjusted price of gold remains very high, inconsistent with the low level of US inflation and inflation expectations
- The likely rise in equity returns and bond yields over the longer term will continue to raise the opportunity cost of holding gold
- Long-term US dollar strength would also work against the metal
- Geopolitical concerns and broader risk aversion have, in recent history, not been a source of support

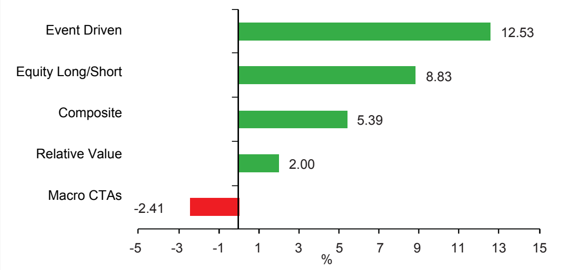
We remain Neutral on industrial metals. Still high inventory levels and the lack of any significant turnaround in final demand remain key risks. An emergence of more detail from China's Third Plenum indicated progress on a number of long-term reform measures, but there was little to suggest short-term, metals-intensive demand was likely to rebound anytime soon.

We remain Overweight oil. Continued easy monetary policy should be a support for oil, but this is likely to be tempered by the fact that we are in a seasonally weak period for prices.

We remain Neutral agricultural commodities. Smaller-than-expected planting intentions in the US (i.e. smaller acreage than expected) proved to be initially supportive for most agricultural commodity prices. Total demand, however, remains subdued which, in turn, is likely to keep a lid on agri prices.

Conclusion: Shift to a neutral position on commodities due to more limited downside risk, but outright gains remain unlikely for now. Gold remains our key Underweight. China's Third Plenum has little to offer for base metals, where we remain Neutral.

Chart 28. Performance of Alternative Strategies YTD* (USD)



* For the period 31 December 2012 to 21 Novemver 2013
HFRX global hedge, HFRX equity hedge, HFRX event driven, HFRX relative value, HFRX macro/CTA

Source: HFRX, Bloomberg, Standard Chartered

Alternative Strategies – Overweight (Chart 28)

We remain Overweight Alternative Strategies, based on our view that the asset class offers exposure to our preferred asset classes, but with the possibility of lower volatility. A diversified approach offers attractive exposure by itself, but equity long/short offers an alternative way of gaining exposure to equities, our preferred asset class.

Diversified exposure to Alternative strategies remains attractive, in our view. A basket of alternative strategies offers the potential of a lower level of volatility (relative to equities) and somewhat limited sensitivity to rising interest rates. We view both these characteristics as attractive in an environment where interest rates may continue trending higher over the long term and the outlook for some regional equity markets remains uncertain. Distressed and Equity long-short strategies remained the top-performing strategies both year-to-date and for the full month of October.

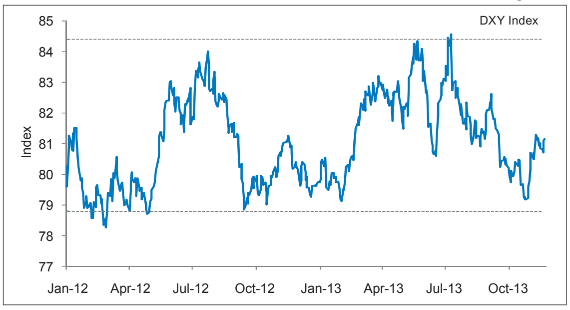
We see equity long/short strategies as attractive for investors uncomfortable with accepting the volatility associated with long-only exposure. These strategies can be interesting for investors wanting to raise equity exposure to benefit from what we view to be an attractive long-term trend, but are uncomfortable with the inescapable volatility associated with a long-only position.

Conclusion: Maintain Alternative Strategies Overweight. Favour diversified exposure and equity long-short strategies both as portfolio diversifiers and for lower volatility relative to long-only equities.

Medium term
refers to a time horizon of 6 to12 months

Short term
refers to a horizon of the less 3 months

Chart 29. USD remains within the lower half of its recent range

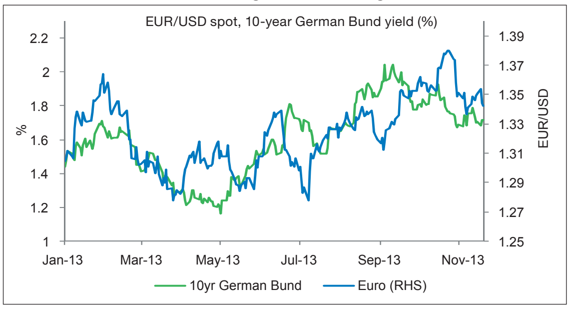


Source: Bloomberg, Standard Chartered

Chart 30. We prefer GBP over CHF

Source: Bloomberg, Standard Chartered

Chart 31. Lower interest rate guidance is negative for the Euro



Source: Bloomberg, Standard Chartered

Foreign Exchange

USD – We are moderately bullish in the medium term (Chart 29)

An eventual end to Fed asset purchases, higher US Treasury yields, a gradually improving external balance and inexpensive long-term valuations remain the key factors behind our expectation of medium term USD strength. **Many shorter-term factors, however, also appear increasingly supportive.** Market positioning is now largely neutral, suggesting extreme positioning is not likely to hold back US Dollar strength. The Dollar index is also closer to the bottom of the range it has held over the past 2-3 years, suggesting a long USD view holds an attractive risk/reward trade-off.

EUR – We are moderately bearish in the medium term (Chart 31)

The most recent Euro area inflation print highlighted the continued presence of deflation risks. It remains likely the ECB may need to loosen policy further, which is negative for the currency. A continued current account surplus and lack of consensus on further easing within European policymakers mean Euro weakness is unlikely to unfold in a straight line. However, we believe the trend is likely to be to the downside.

JPY – We are medium-term bearish

It is worth highlighting headline inflation is likely to climb to, or above, the BoJ's target temporarily due to the effect of the consumption tax alone, which risks the market doubting the likelihood of further policy easing in the event growth slows. However, we continue to believe the BoJ is likely to see through any such temporary rise in inflation if economic growth suffers, which is negative for the currency.

GBP – We are medium-term neutral (from bearish earlier) (Chart 30)

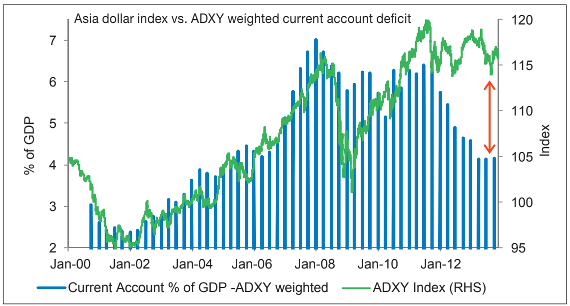
We are raising our view on GBP to medium-term neutral (from bearish earlier) based largely on the change in tone in the BoE's Quarterly Inflation Report. The central bank raised its growth forecasts, expressed increased confidence in its ability to meet its 7% unemployment threshold and brought forward its expected timing of the first policy rate hike by 9 months. These factors are largely bullish for the GBP.

We recognise significant strength in GBP-USD is unlikely in the context of a strong Dollar. **However, we believe a more positive view on GBP is best expressed versus either the EUR (short EURGBP) or CHF (short CHFGBP)** as these pairs capture the rising monetary policy divergence with the ECB more directly.

AUD – We are medium-term bearish

Our bearish view continues to be led by a lacklustre commodities outlook and a likely narrowing of interest rate differentials with the USD. While the RBA has also made its preference for a significantly weaker currency very clear, the key risk to our view stems from continued inflation pressure, which may hold back the RBA from cutting rates further. On balance, we believe it is attractive to reduce exposure to the AUD and rebalance towards the USD.

Chart 32. Asia continues to face an adverse external balance



Source: Bloomberg, Standard Chartered

CNY – We are medium-term neutral

We believe Chinese authorities are likely to maintain a range-bound Renminbi in the midst of ongoing policy reforms and the development of the offshore Renminbi market. It remains our preferred regional currency.

SGD – We are medium-term neutral

The policy decision to maintain 'modest and gradual appreciation' of the currency is in line with our view that the currency is likely to offer relative stability in the region. We maintain a neutral medium-term view on the SGD.

We are medium-term bearish on other Asia ex-Japan currencies (Chart 32)

Higher policy rates and lower current account deficits in India and Indonesia have arguably reduced downside risks to some extent. However, we continue to believe the broader region's currencies are unlikely to escape weakness in the event of a Fed tapering decision. We, therefore, remain medium-term bearish.

Conclusion: We remain medium-term bullish on the USD and bearish on AUD and Asian currencies. We raise our view on GBP to neutral (from bearish earlier).

Conclusion

We remain overweight global equities with a preference for Developed markets. While there are signs equity markets are starting to look a little stretched, we have to remember that we are in a seasonally strong period and there appears to be significant cash on the sidelines. Therefore, we believe any pullback would be short in duration and limited in quantum (less than 5%). Therefore, we recommend clients remain alert to any opportunity that short term volatility may provide.

Disclosure Appendix

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