

## Strong end to 2014 likely

Q4, particularly December, is seasonally a strong period for global equities, especially immediately after the US mid-term elections. We see no reason for this time to be different.

We expect global equities to continue outperforming into 2015, albeit with greater volatility than in 2014.

Against the backdrop of only gradually rising US interest rates and very stimulatory policy in Europe and Japan, we expect investors to continue looking for high-yielding assets.

We will go into more details on this and other themes in our Outlook 2015 publication, due for release on 12 December.

### Implications for investors:

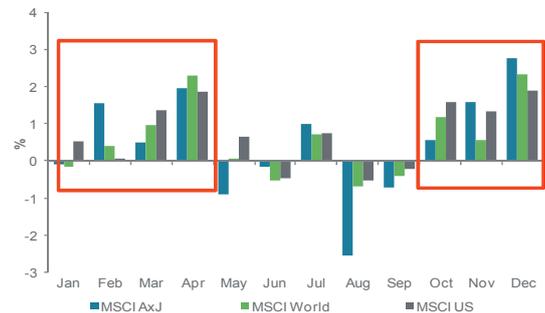
- Global equities are expected to perform well into the year-end and Q1 2015.** As seen in the chart on the right, global equities, on average, perform best in the last three months and in the first four months of a year. Since 1990, the US S&P500 index has seen only 4 negative performances in December, with the declines averaging just 2.3%. 2002 was the worst, when it was down 6%, but even then losses were recouped by May 2003. The biggest risk to global equities is potentially higher volatility around the start of the US interest-rate hiking cycle. However, we expect the hikes to be gradual, which should limit any short-term volatility.
- Japan upgraded to Overweight on a currency-hedged basis.** The stock market is likely to be supported by recent policy actions, positive earnings revisions and the government pension fund's decision to increase its allocation to the local market. However, we would prefer to invest in Japanese equities on a currency-hedged basis given our negative view on the JPY.
- Stretched USD indicators suggest opportunity to sell short-term volatility.** While we remain fundamentally bullish on the USD, positioning data suggest this is a crowded trade at the moment. As such, we could see either a pause in the USD uptrend or short-term USD weakness. Meanwhile, market expectations for volatility have risen significantly, increasing the potential returns for selling volatility on currencies.

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### Global equities normally see strong returns in Q4, which spills into Q1

Average returns for equities, by month, since 1991 (1995 for Asia ex-Japan)



Source: Bloomberg, Standard Chartered

- |                         |   |
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### Japan's pension fund plans to double allocation to stocks

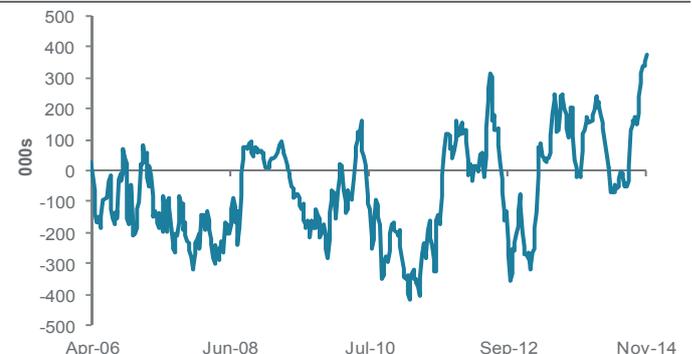
Japanese government pension fund's new and old allocation in stocks, bonds and short-term assets (%)



Source: Bloomberg, Standard Chartered

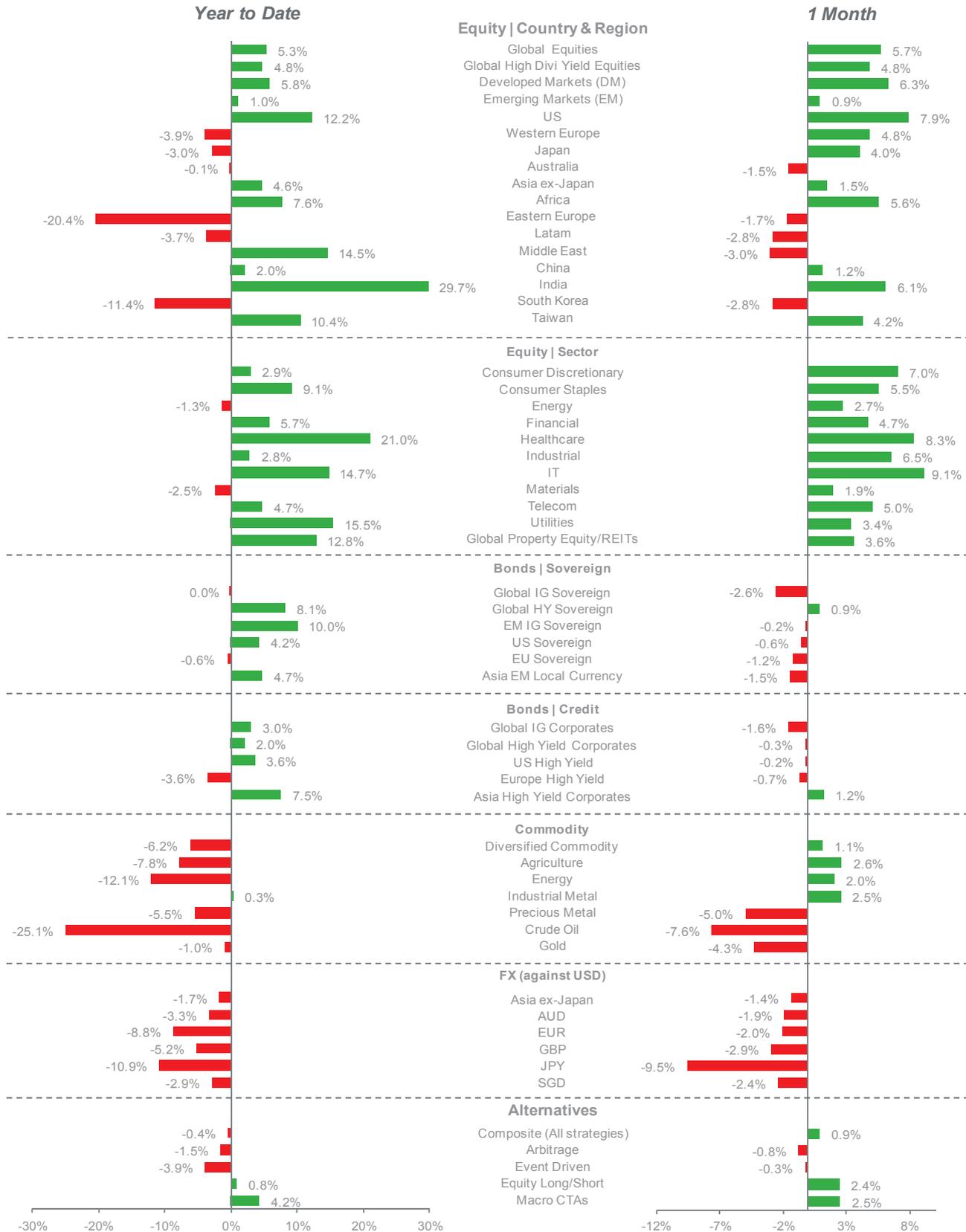
### USD positioning suggests an over-crowded long-USD trade

Number of contracts for net-USD futures trades (000s)



Source: Bloomberg, Standard Chartered

## Market Performance Summary (Year to Date & 1 Month)\*



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

\*YTD performance data from 31 December 2013 to 20 November 2014 and 1-month performance from 20 October to 20 November 2014

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

## Investment Strategy

- **Equity markets, income allocation rebound strongly**
- **Japan positively surprises on the policy front, earnings forecasts still being revised higher**
- **USD likely to take a pause, creating opportunities to sell volatility**
- **CNH expected to strengthen in the coming months**

**Equities rebounding strongly.** Global equities have rebounded c.9% from their October lows, with the US market hitting new highs. This fits with the pattern for global equities having a strong Q4. We expect history to repeat, with positive returns also expected in Q1 2015.

**Delayed interest-rate-hike expectations supportive of income-generating assets.** Wage inflation pressures in the US are likely to build as the labour market tightens. However, the broader inflationary consequences of accelerating wage inflation are likely to be mitigated by the rising USD and falling commodity prices. On balance, we expect the Fed to only gradually tighten monetary policy in 2015, and this should be supportive of income-generating assets and global equities.

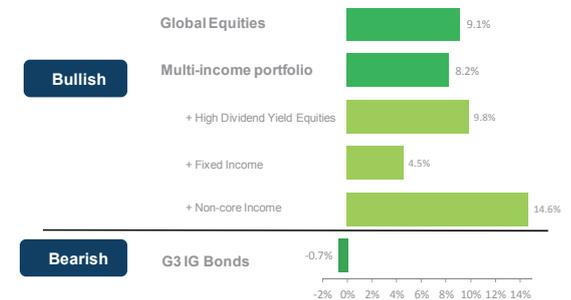
### Implications for investors:

- **Do not miss a likely year-end rally.** This is a seasonally-strong period for global equities, and our income allocation theme is also expected to perform well in the coming 3-6 months, before we see a significant increase in volatility.
  - Fund managers have reduced their cash allocations to some extent, but the allocations remain elevated
  - Earnings releases continue to surprise on the upside in the US, Japan and Europe
  - We expect the Fed to hike interest rates in 2015, but this may only occur around mid-2015, reducing volatility risks in the near term
- **Japanese equities look increasingly attractive.** Policy surprises and corporate fundamentals suggest an increasing allocation to Japanese equities on a currency-hedged basis.
  - Policy surprises include accelerated monetary policy stimulus and a delay in the proposed sales tax hike
  - The government pension fund has doubled its targeted allocation to Japanese equities
  - Japan is the only region where consensus earnings forecasts are rising. This allows higher dividends and share buybacks
- **Currency volatility likely to decline in the coming weeks.** There are signs the 'long-USD' trade is becoming over-crowded. Therefore, we expect the USD to either stabilise or weaken in the short term. Together with the increase in market expectations for FX volatility, this suggests an opportunity has been created to sell volatility on currencies such as the EUR and JPY.
- **The trend remains for CNH strength against the USD.** While Chinese authorities are clearly trying to support growth, we do not expect them to use CNY weakness as a tool to revive growth because a weaker CNY is likely to:
  - Increase capital flight leading to higher local interest rates, thereby undermining the authorities' policy objectives
  - Introduce another area of uncertainty, which could undermine investment
  - Result in greater tensions with a Republican-led US Congress

**Therefore, we expect Chinese authorities to allow a gradual appreciation of the CNY, which should be mirrored by the CNH.**

### Bullish A.G.I.L.E. themes have delivered strong returns this year

*A.G.I.L.E. performance since Outlook 2014 was published\**



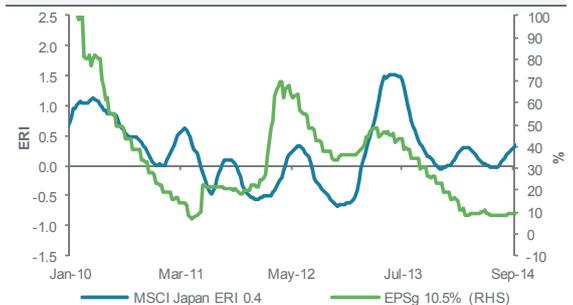
\* For the period 16 December 2013 to 20 November 2014

Source: Bloomberg, Standard Chartered

\* Income basket is as described in Outlook 2014: A Year to be A.G.I.L.E., Figure 53, and then revised in the August Global Market Outlook (Volatility likely to remain low for a while)

### Japan's earnings are being revised up on the back of positive surprises

*MSCI Japan Earnings Revision index; 12-month EPS growth (%)*



Source: Bloomberg, Standard Chartered

### Increasing volatility expectations create opportunity for FX yield-enhancing strategies

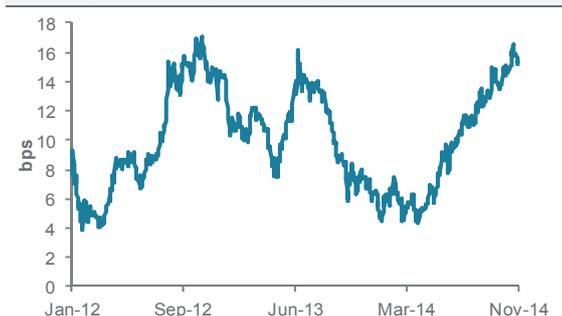
*1-month AUD/USD and NZD/USD implied volatility*



Source: Bloomberg, Standard Chartered

### Large forward premium suggests CNH depreciation is unlikely

*CNH 1-year forward premium (bps)*



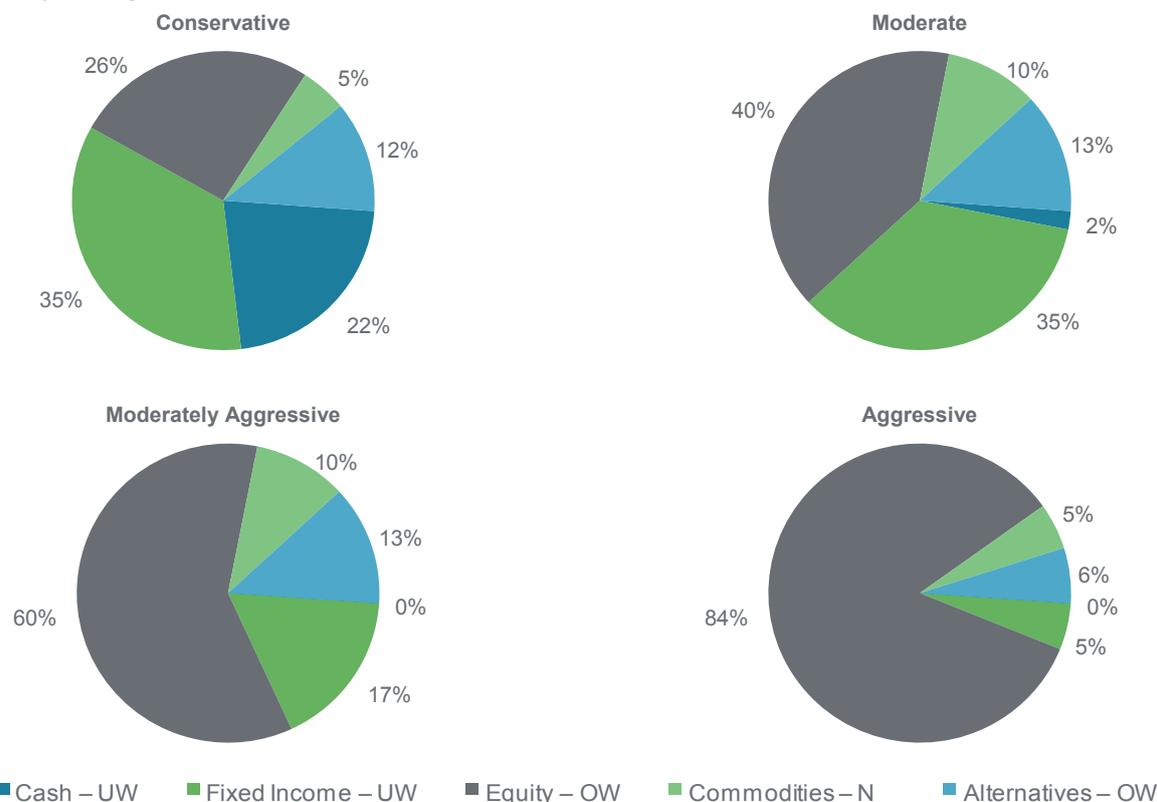
Source: Bloomberg, Standard Chartered

# Asset Allocation Summary

## Tactical Asset Allocation – December 2014 (12M)

All figures are in percentages

Currency: USD



Asset Class	Region	View vs. SAA	Conservative	Moderate	Moderately Aggressive	Aggressive
<b>Cash &amp; Cash Equivalents</b>	USD Cash	UW	22	2	0	0
<b>Investment Grade</b>	IG Developed World	UW	23	15	0	0
	IG Emerging World	N	5	9	4	0
<b>High Yield</b>	HY Developed World	N	2	5	4	2
	HY Emerging World	OW	5	6	9	3
<b>Developed Market Equity</b>	North America	OW	8	12	17	24
	Europe	OW	8	11	16	23
	Japan	N	0	2	4	5
<b>Emerging Market Equity</b>	Asia ex-Japan	N	8	13	19	26
	Other EM	UW	2	2	4	6
<b>Commodities</b>	Commodities	N	5	10	10	5
<b>Alternatives</b>		OW	12	13	13	6

Source: Standard Chartered

## Economic & Market Calendar

Next Week: Nov 24 - Nov 28					This Week: Nov 17 - Nov 21					
	Event	Period	Expected	Prior	Event	Period	Actual	Prior		
MON	GE	IFO Expectations	Nov	-	98.3	NZ	Retail Sales ex-Inflation q/q	Q3	1.5%	1.1%
	US	Chicago Fed National Activity Index	Oct	-	0.47	JN	GDP Annualised SA q/q	Q3 P	-1.6%	-7.3%
	US	Dallas Fed Manufacturing Activity	Nov	8.0	10.5	JN	GDP Private Consumption q/q	Q3P	0.4%	-5.0%
	SI	CPI y/y	Oct	0.6%	0.6%	JN	GDP Business Spending q/q	Q3 P	-0.2%	-4.8%
	SI	CPI Core y/y	Oct	1.9%		UK	Rightmove House Prices y/y	Nov	8.5%	7.6%
	TA	Commercial Sales y/y	Oct	2.64%	2.53%	EC	Trade Balance SA	Sep	17.7B	15.4B
	TA	Industrial Production y/y	Oct	7.35%	10.30%	US	Empire Manufacturing	Nov	10.16	6.17
						CA	Existing Home Sales m/m	Oct	0.7%	-1.4%
						US	Industrial Production m/m	Oct	-0.1%	0.8%
						SI	Non-oil Domestic Exports y/y	Oct	-1.5%	0.9%
					TH	GDP SA q/q	Q3	1.1%	1.1%	
					IN	Exports y/y	Oct	-5.0%	2.7%	
TUE	GE	GDP SA q/q	Q3 F	-	0.1%	AU	RBA Minutes of November meeting			
	US	GDP Annualised q/q	Q3 S	3.2%	3.5%	CH	Foreign Direct Investment	Oct	1.3%	1.9%
	CA	Retail Sales m/m	Sep	0.5%	-0.3%	UK	CPI y/y	Oct	1.3%	1.2%
	US	S&P/Case-Schiller Composite-20 y/y	Sep	4.50%	5.57%	GE	ZEW Survey Expectations	Nov	11.5	-3.6
	US	Consumer Confidence Index	Nov	95.3	94.5	EC	ZEW Survey Expectations	Nov	11.0	4.1
	US	Richmond Fed Manufacturing Index	Nov	16	20	ID	Bank Indonesia Reference Rate	Nov 18	7.75%	7.50%
	SI	GDP SAAR q/q	Q3 F	1.5%	1.2%	US	PPI Final Demand y/y	Oct	1.5%	1.6%
	NZ	2-Year Inflation Expectation	Q4	-	2.23%	US	NAHB Housing Market Index	Nov	58	54
	HK	Exports y/y	Oct	-	4.5%					
WED	SK	Consumer Confidence	Nov	-	105	SK	PPI y/y	Oct	-0.7%	-0.5%
	SI	Industrial Production y/y	Oct	1.0%	-1.2%	AU	Westpac Leading Index m/m	Oct	0.03%	-0.05%
	JN	Small Business Confidence	Nov	-	47.4	JN	Annual Rise in Monetary Base JPY	Nov 19	80T	80T
	UK	GDP q/q	Q3 P	-	0.7%	JN	All Industry Activity Index m/m	Sep	1.0%	0.0%
	US	Capital Goods order non-def, ex-air	Oct	0.8%	-1.6%	JN	Nationwide Dept Store Sales y/y	Oct	-2.2%	-0.7%
	US	Personal Income	Oct	0.4%	0.2%	EC	ECB Current Account SA	Sep	30.0B	18.9B
	US	Personal Spending	Oct	0.3%	-0.2%	UK	Bank of England Minutes			
	US	PCE Core y/y	Oct	-	1.5%	US	Housing Starts	Oct	1009K	1038K
	US	Chicago Purchasing Managers Index	Nov	63.0	66.2	US	Building Permits	Oct	1080K	1031K
	US	University of Michigan Conf Index	Nov F	90.0	89.4					
US	New Home Sales	Oct	470K	467K						
THUR	NZ	Trade Balance	Oct	-749M	-1350M	US	Fed Minutes from Oct FOMC meet			
	SK	BoP Current Account Balance	Oct	-	\$7.62B	JN	Trade Balance JPY	Oct	-710.0B	-960.6B
	AU	Private Capital Expenditure	Q3	-1.5%	1.1%	JN	Exports y/y	Oct	9.6%	6.9%
	CH	Industrial Profits y/y	Oct	-	0.4%	JN	Markit/JMMA Japan Manufacturing	Nov P	52.1	52.4
	PH	GDP y/y	Q3	6.5%	6.4%	CH	HSBC China Manufacturing PMI	Nov P	50.0	50.4
	GE	Unemployment Rate	Nov	-	6.7%	JN	Machine Tool Orders y/y	Oct F	30.8%	31.2%
	EC	M3 Money Supply y/y	Oct	-	2.5%	TA	Export Orders y/y	Oct	13.4%	12.7%
	EC	Economic Confidence	Nov	-	100.7	GE	PPI y/y	Oct	-1.0%	-1.0%
	EC	Industrial Confidence	Nov	-	-5.1	EC	Markit Eurozone Manufacturing PMI	Nov P	50.4	50.6
	EC	Consumer Confidence	Nov F	-		EC	Markit Eurozone Services PMI	Nov P	51.3	52.3
	EC	Services Confidence	Nov	-	4.4	EC	Markit Eurozone Composite PMI	Nov P	51.4	52.1
	EC	Business Climate Indicator	Nov	-	0.05	UK	Retail Sales Incl. Auto y/y	Oct	4.3%	2.7%
	GE	CPI EU Harmonised y/y	Nov P	-	0.7%	US	CPI y/y	Oct	1.7%	1.7%
	CA	Current Account Balance	Q3	-	-\$11.9B	US	Philadelphia Fed Business Outlook	Nov	40.8	20.7
						US	Existing Home Sales	Oct	5.26M	5.18M
						EC	Consumer Confidence	Nov A	-11.6	-11.1
FRI	GE	Retail Sales y/y	Oct	-	2.3%	MA	CPI y/y	Oct	-	2.6%
	SK	Industrial Production y/y	Oct	-	1.9%	RU	Retail Sales Real y/y	Oct	-	1.7%
	JN	National CPI y/y	Oct	3.0%	3.2%	CA	CPI y/y	Oct	-	2.0%
	JN	Retail Sales m/m	Oct	-	2.7%					
	JN	Industrial Production y/y	Oct P	-1.5%	0.8%					
	EC	Unemployment Rate	Oct	-	11.5%					
	EC	CPI Estimate y/y	Nov	-	-					
	IN	GDP y/y	Q3	-	5.7%					
	CA	Quarterly GDP Annualised	Q3	-	3.6%					
Previous data are for the preceding period unless otherwise indicated Data are % change on previous period unless otherwise indicated P - preliminary data, F - final data, sa - seasonally adjusted y/y - year on year, m/m - month-on-month, q/q - quarter on quarter					Previous data are for the preceding period unless otherwise indicated Data are % change on previous period unless otherwise indicated P - preliminary data, F - final data, sa - seasonally adjusted y/y - year on year, m/m - month-on-month, q/q - quarter on quarter					

Source: Bloomberg, Standard Chartered

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