



# OUTLOOK 2015

## A YEAR TO W.I.D.E.N.

### INVESTMENT HORIZONS

*This is an abridged version of the Outlook 2015 report  
published on 12 December 2014*

The Commentary reflects the views of the Wealth Management Group of Standard Chartered Bank

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# 2015 strategy and introducing W.I.D.E.N.

| Steve Brice |

## 2015 is the year to W.I.D.E.N. your investment horizons

We are following up on the success of our 2014 A.G.I.L.E. theme with our Outlook 2015: a year to W.I.D.E.N. your investment horizons.

We believe the environment of modestly accelerating growth, benign inflation and still stimulatory monetary policies will support returns for both global equities and a diversified allocation to income-generating assets. However, we expect this to come with greater volatility as the US Federal Reserve hikes interest rates for the first time since 2006. It is against this backdrop that we believe investors will benefit if they W.I.D.E.N. their horizons to include less traditional sources of return.

|          |  |
|----------|--|
| <b>W</b> | <p><b>World economy to keep expanding, led by an accelerating US</b><br/>Remain overweight risky assets, especially Developed Market equities</p>                                      |
| <b>I</b> | <p><b>Inflation to remain low</b><br/>Maintain an allocation to diversified income</p>   |
| <b>D</b> | <p><b>Divergent monetary policies to create multiple investment opportunities</b><br/>Position yourself for a strong US dollar<br/>Keep alert to local opportunities as they arise</p> |
| <b>E</b> | <p><b>End of US zero interest rates to create short-term volatility in many asset classes</b><br/>Prepare for, and take advantage of, greater volatility</p>                           |
| <b>N</b> | <p><b>Need for reform key to Emerging Market returns</b><br/>Retain selective stance for now</p>   |

**W.** **World economy to keep expanding, led by an accelerating US.** Global growth is likely to accelerate marginally in 2015. The acceleration in US growth looks the most assured, although monetary policy stimuli are also expected to support a modest acceleration in Europe and Japan. Emerging Markets are likely to witness slower growth, led by a weaker China and lower commodity prices.

**I.** **Inflation to remain low.** Low inflation and bond yields mean a diversified approach to income investing is valid for income-focused and total return-focused investors alike. We advocate a significant Overweight position to high dividend-yielding equities as well as an increased

allocation to less traditional, non-core income investments such as covered calls, convertible bonds, REITS and preferred equity. Within bonds, we focus on two local currency markets in Asia (China and India) to help boost yields from more traditional USD fixed income instruments.

**D.** **Divergent monetary policies to create investment opportunities.** The US Federal Reserve is expected to raise interest rates for the first time since 2006, while the Bank of Japan, European Central Bank and People's Bank of China continue to ease policy settings. This is expected to keep the US dollar strong, while creating local investment opportunities.

**E.** **End of zero interest rates in the US to create short-term volatility in many asset classes.** While we expect global equities to outperform bonds, the start of the US interest rate-hiking cycle risks an increase in short-term volatility, probably as we head towards the summer months. Investors should be mentally prepared for this (ie, be comfortable with the level of risk inherent in their portfolios). Higher volatility will also provide opportunities to raise equity allocations and to sell equity volatility through the writing of puts or covered calls.

**N.** **Need for reform key to Emerging Market returns.** The implications of reform are not always clear-cut, and we believe that investors should remain selective. The key is how quickly growth benefits are likely to be felt. For India, the market response has been dramatic as the country appears to be heading towards a virtuous circle of accelerating growth and falling inflation. In China, reform is seen as a trade-off between long-term and short-term growth, with the latter losing out. However, it is possible 2015 proves to be the year where markets reward China as hard-landing risks recede. Watch also Brazil's and Indonesia's new leadership to see if they can deliver on reform promises.

| Key investment themes as we head into 2015 |   |
|--|---|
| <b>Global Equities</b>                     | <ul style="list-style-type: none"> <li>Globally diversified equity</li> <li>High dividend equities</li> </ul>                       |
| <b>Diversified Income</b>                  | <ul style="list-style-type: none"> <li>Bonds</li> <li>Non-core income</li> </ul>  |
| <b>Alternatives</b>                        | <ul style="list-style-type: none"> <li>Equity long/short strategy</li> <li>Systematic and discretionary macro strategies</li> </ul> |

Source: Standard Chartered Bank

# Macro overview – A year of policy divergence

Steve Brice |

## Developed Markets to accelerate

The **US** is likely to achieve ‘full employment’ (ie, 5.5% unemployment) in 2015 as growth accelerates to around 3% on the back of a consumer-led revival. The fastest pace of job creation since 1999 has encouraged consumption, which in turn is supporting business investment. Growth may accelerate further if oil prices continue to fall.

**Europe** should see faster growth (1.6% vs. 1.3% in 2014) for a second year, especially the UK, which is forecast to lead the region with 2.6% growth. **Japan** too looks set to recover from a recession as Prime Minister Shinzo Abe’s reflationary economic policies (aka Abenomics) gets a boost from a strong election win in December.

## Inflation should remain benign

US inflation is likely to remain benign due to excess spare capacity worldwide, stronger USD and lower oil prices, which should allow the **US Federal Reserve** to raise interest rates at a slow pace starting in the summer of 2015.

The **Euro area** is likely to avert deflation, while inflation in **Japan** looks set to move closer to the central bank’s 2% target. Inflation in **China** is likely to remain muted due to excess capacities in key sectors.

## Liquidity to stay ample

A strong US job market and wage growth is set to trigger the first interest rate hike by the **Fed** since 2006. However, low inflation should allow policymakers to keep interest rates low. The **European Central Bank** looks set to buy government bonds for the first time ever in a bid to stave off deflationary pressures while **Japan** is set to continue with aggressive asset purchases.

The government pension fund too plans to double the share of local stocks in its portfolio.

## Emerging Markets to continue reforms

**China’s** growth rate could slow marginally to 7% as policymakers pursue reforms to make the economy less dependent on investment and more on consumption. **India** has one of the strongest stories among the emerging markets as a business-friendly government focuses on building infrastructure and attract foreign direct investment.

**Indonesia** and **Brazil** are likely to pursue reforms under new governments. **Russia**, already hit by Western sanctions, is the weakest link among the EMs as it is likely to be impacted further by any further drop in oil prices.

**Key risks**

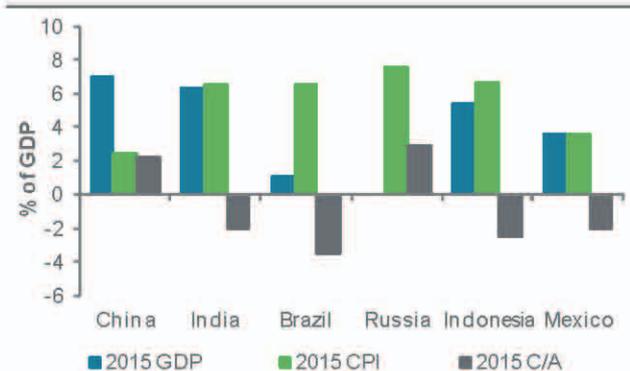
- **Geopolitical uncertainties** in Ukraine/Russia, Iraq and Syria and Northeast Asia.
- **Upcoming European elections** could cause uncertainty if far-right or far-left parties gain ground.
- **Deflation risks in Europe** could rise if the ECB fails to get support for broadening its asset purchases.
- **The oil price drop could hurt major producers** such as Russia, Venezuela, Iran, Nigeria and Ghana.
- **A premature Fed rate hike** could cause an economic downturn.
- **A hard-landing in China** remains a risk, although this seems more remote than a year ago.
- **Low borrowing costs worldwide could accentuate excessive risk taking**, leading to asset bubbles.

**Figure 1: DMs to accelerate, China to slow further**  
GDP growth for 2013 and consensus forecasts for 2014-2015



Source: Bloomberg, Standard Chartered Bank

**Figure 2: China, India to remain EM growth leaders**  
Consensus GDP growth, inflation and current account balance estimates for 2015 in key EMs (% of GDP)



Source: Bloomberg, Standard Chartered Bank

# Bonds – Fed in the driving seat

Manpreet Gill

## Stay Underweight bonds

We remain Underweight Bonds and expect them to underperform equities in 2015, mainly because low yields from G3 government bonds are likely to limit returns. Also, the risk of losing capital is high as the US Federal Reserve prepares to raise interest rates for the first time since 2006.

We upgrade Emerging Markets Investment Grade sovereign bonds to Overweight. Their attraction lies in their relative value, lower risk from changes in commodity prices and improving credit quality. While EM bonds' high sensitivity to interest rates is a risk, we believe this should be somewhat mitigated by declining yield premiums over US Treasuries.

## Favour INR and CNY bonds

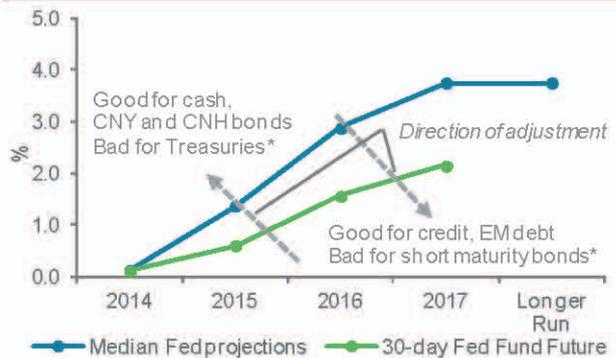
We favour CNY, CNH and INR bonds in Asian local currency markets. Solid, investment grade credit quality bonds in this space offer better yields (approximately 4-8%) and lower risk compared with the wider local currency bond universe. China has begun cutting interest rates and India is likely to do so in 2015. Lower market yields mean capital gains on these bonds will top up total returns over and above the yield on offer. We also expect both currencies to remain stable, limiting the downside for bond investors.

We are Overweight corporate credit in both Developed Markets and Asia, but are mindful that returns are likely to be limited to the yield. Within corporate bonds, we have an equal preference for investment grade and high yield credit in these regions. Leveraged loans may continue to deliver solid, if unexciting, returns.

An unconstrained approach to bond investing is a flexible way of taking advantage of attractive areas within fixed income while managing risk. We see opportunities in a diversified bond universe in the following asset classes: (a)

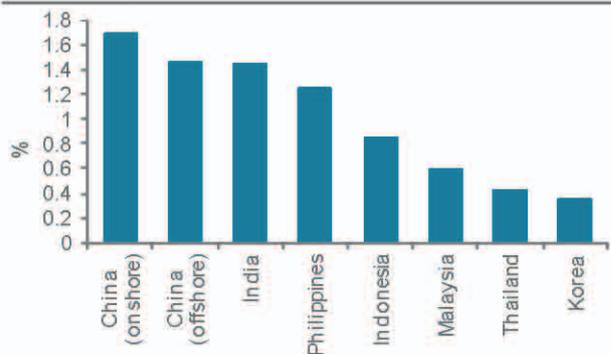
EM IG sovereign bonds, (b) corporate credit in DM and Asia, and (c) CNY and INR local currency bonds.

**Figure 4: The gap between the Fed's central view and the market's rate expectations remain wide**  
Average of FOMC members' rate expectations vs. current market expectations based on Fed fund futures



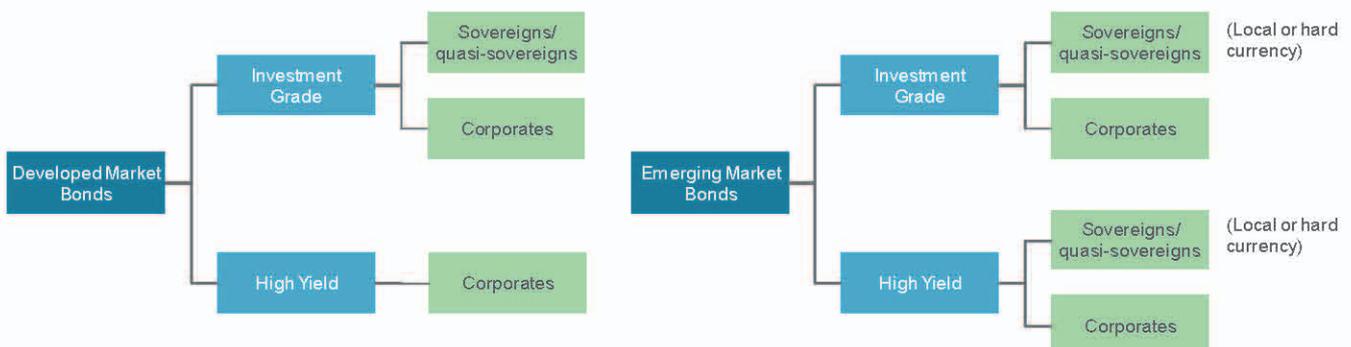
\*Asset class expectations in relative terms  
Source: Bloomberg, Standard Chartered Bank

**Figure 5: CNY, CNH and INR bonds offer the best yields once you account for currency volatility**  
2-year government bond yields divided by 1-year historical FX volatility



Source: Bloomberg, Standard Chartered Bank

**Figure 3: A map of the way we look at the global bond universe**



Source: Standard Chartered Bank

## Equity – Outperformance, but increased volatility

| Clive McDonnell | Audrey Goh |

### Equities to outperform bonds

We expect 2015 to be the third successive year for global equities to outperform bonds. Forecast rate increases by the Fed are likely to weigh on bonds. Meanwhile, market trends from the past three Fed rate hiking cycles show global equity returns have averaged 6% in the six months prior to the first Fed rate hike and 8% in the six months thereafter. Returns from bonds have been lower over the same period.

### We expect DM to outperform EM

Stronger growth and lower oil prices will be the biggest drivers of equity markets in 2015. We expect DM to outperform EM. The US, Europe and Japan are our top picks in 2015.

We remain **Overweight the US**. Drivers of our **Overweight** view include (1) lower oil prices, which are likely to drive US consumption higher; (2) continued improvement in employment, driving consumption higher; (3) a stronger USD acting as a restraint on inflation, although we note this could be a headwind for earnings; and (4) valuations that are not at as high as in prior cycles.

We remain **Overweight Europe**, based on the fact that (1) a majority of European corporate revenues are generated outside Europe, so international growth trends are more important; (2) a weaker euro should stimulate corporate earnings growth; and (3) leading indicators of bank lending suggest a recovery, which should help support an investment revival. Looking ahead to 2015, it is quite likely that the European Central Bank will follow through on its commitment to do “whatever it takes”. If it does follow through with quantitative easing (QE), the effect on equity markets should be very positive, based on past trends in the US and Japan.

We recently increased our allocation to **Japan** to **Overweight** on a currency-hedged basis, driven by the following factors: (1) the weaker JPY should raise both GDP and earnings growth; (2) flows to domestic equity markets are forecast to grow as the Government Pension Investment Fund and households raise their equity holdings at the expense of bonds; and (3) liquidity boost from increased asset purchases by the BoJ, which now include equities and REITs purchases.

### Underweight Asia ex-Japan, but expect positive returns

We are **Underweight Asia ex-Japan**, but single out **India** as having the potential to outperform in the year ahead. Asia ex-Japan is likely to post positive returns ahead of a Fed rate hike and possibly post negative returns in the subsequent months. For the full year, we expect positive but muted returns from the region. Drivers of our view include (1) an analysis of prior US rate-hiking cycles since 1994 shows the region tends to Underperform DM peers by an average of 5% in the 12 months following the first Fed rate hike; (2) prior periods of USD strength have seen portfolio fund outflows from Asia ex-Japan; and (3) continued slowdown in China’s economic growth likely to weigh on the region.

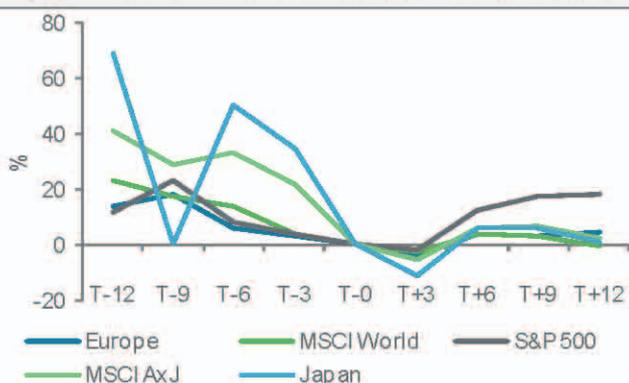
Amongst other Asian economies, we are **Overweight China, Taiwan and Thailand** and **Underweight MSCI Hong Kong, Singapore and Malaysia**. We are **Neutral Korea, Indonesia and the Philippines**.

### Conviction sector – Global Technology

From a sector perspective, we favour **Global Technology**. Technology was one of the best performers in 2014, rising 16%, and we continue to see it as well-positioned into the coming year. The key drivers of our view include (1) the sector’s oligopolistic structure and increased capital discipline, which should aid semiconductor pricing in 2015; (2) excluding smartphones and tablets, market research firm IDC expects total spending to rise 2.4% in 2015 and 3.2% in 2016, led by IT services, storage and software; and (3) tech firms are strongly cash-generative, which is supportive of more share buybacks and higher dividends.

**Figure 6: Trends from last three rate-hiking cycles suggest positive returns six months after a hike**

*Equity market returns 12 months before/after US rate hikes*



Source: Bloomberg, Standard Chartered Bank

# FX – Divergence to dominate

| Tariq Ali |

## USD strength in 2015

We are bullish on the USD. Monetary policy divergence is the key driver of this view. However, the magnitude of USD strength is likely to be less than in 2014 (the greenback's best performance since 2005).

Interest rate differentials are likely to widen further, in our opinion, as the Fed begins its rate-hiking cycle while other major central banks such as the European Central Bank and Bank of Japan (BoJ) continue to ease monetary policy. As such, USD strength will be the most pronounced against the EUR and JPY.

We expect a **75-100bps pick-up in 2-year Treasury yields** to generate roughly mid-single-digit returns to USD performance in 2015. USD gains are likely to be **modest against commodity currencies** (AUD, NZD and CAD) as well as against **Asia ex-Japan currencies**.

## Bearish on the EUR and JPY

We expect economic and monetary policy divergence to further weaken the EUR and JPY against the USD.

We are **bearish on the EUR**. The implementation of further monetary policy easing measures by the ECB and the Euro area's economic divergence from the US is likely to drive additional EUR weakness.

We are also **bearish on the JPY**, as the BoJ's aggressive easing measures and outflows from the Government Pension Investment Fund (GPIF) after its decision to buy more overseas assets are likely to further weaken the currency. The BoJ's broad-based asset purchases should expand domestic liquidity, keep interest rates near record lows and

boost the JPY's status as a funding currency, especially as US interest rates start to rise.

We are **moderately bearish on the AUD**, and expect a modest decline on the back of depressed Australian commodity prices and a lacklustre growth outlook. We believe the Reserve Bank of Australia will continue to favour a weaker currency until commodity prices rebound significantly.

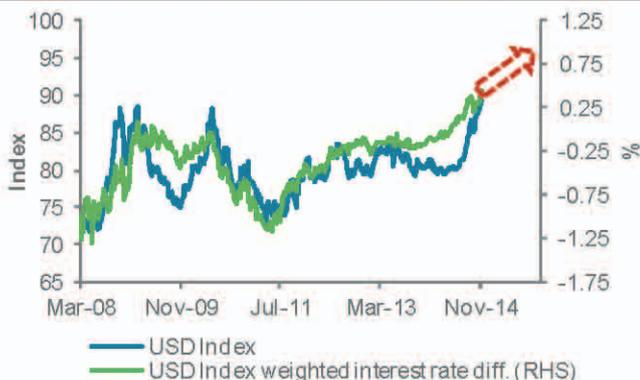
We are overall cautious on Asia ex-Japan currencies, but see potential **opportunities in the CNY, INR and SGD**, despite a broadly strengthening USD. We are Neutral on the CNY as we believe the Chinese authorities will keep the fixing rate for the currency stable in 2015. Any move to weaken the CNY would be counter-productive, in our view.

We are **moderately bearish on the NZD**. We expect a modest decline in the NZD, given depressed dairy prices and an extended pause in the interest rate-hiking cycle. However, we believe that the majority of the weakness in dairy prices has already taken place. As Chinese inventories are further exhausted, downside risks to dairy prices seem contained.

We are **Neutral on the INR**. Balanced positive and negative factors are likely to keep the INR broadly stable and limit any weakness. A much-reduced current account deficit amidst lower oil prices, strong portfolio inflows, domestic reform optimism and high domestic interest rates are positives. In addition, India's FX reserve position relative to imports and short-term commitments has improved considerably. On the negative side, a major EM sell-off, reform implementation hang-ups and a high fiscal deficit pose potential challenges.

**Figure 7: USD strength has closely followed interest rate differentials with peers**

*US 2-year interest rate differentials\* and USD Index*



Source: Bloomberg, Standard Chartered Bank

\* using USD index weights

**Figure 8: Asia ex-Japan currencies have generally strengthened as we approach Fed rate hikes**

*Asia Dollar Index and Fed funds effective rate*



Source: Bloomberg, Standard Chartered Bank

# China – Reduced tail risk provides entrance opportunity

| Steve Brice |

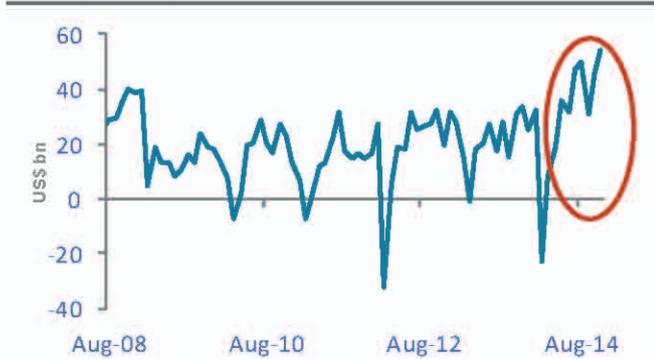
## Macro: China to pursue reforms

China is likely to retain the focus on re-orienting its economy towards consumption, accepting a slower rate of growth. We expect growth to decelerate to around 7%, from an estimated 7.4% in 2014. Faster growth in the US and Europe should help sustain exports while policymakers maintain a tight leash on domestic lending to sectors facing surplus capacities.

We expect more targeted easing at priority sectors of the economy, such as transportation, healthcare and rural housing in the less-developed western and central regions. The authorities are also likely to intervene with broad interest rate cuts but only to manage the pace of deceleration of the economy, rather than to reflate it.

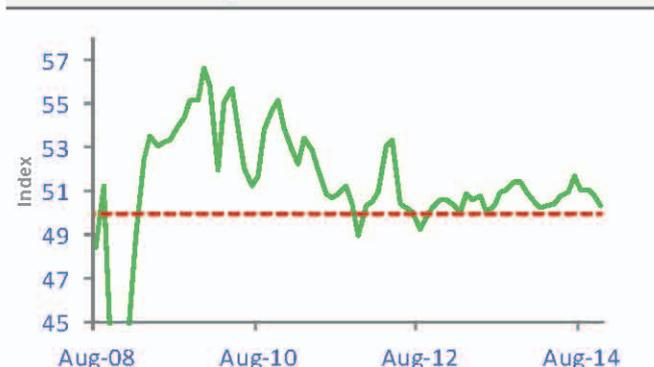
Inflation, currently at a four-year low, is likely to remain benign as key sectors of the economy work through surplus capacity. This should provide policymakers ample scope to provide temporary stimulus if growth and job creation decline sharply.

**Figure 9: China's trade surplus remains very strong**  
*Trade balance*



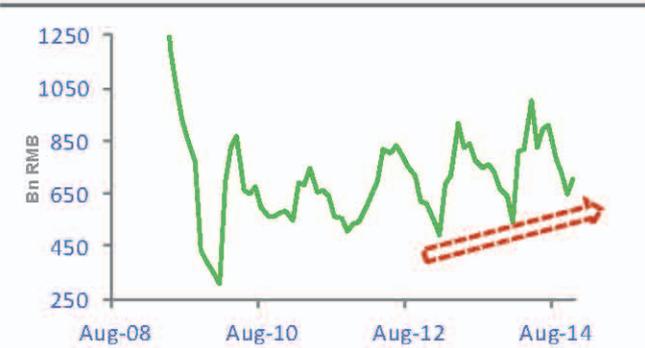
Source: Bloomberg, Standard Chartered Bank

**Figure 10: Manufacturing PMI still in expansion zone, just about**  
*China manufacturing PMI*



Source: Bloomberg, Standard Chartered Bank

**Figure 11: New loans broadly trending up**  
*New yuan loans (3-month moving average)*



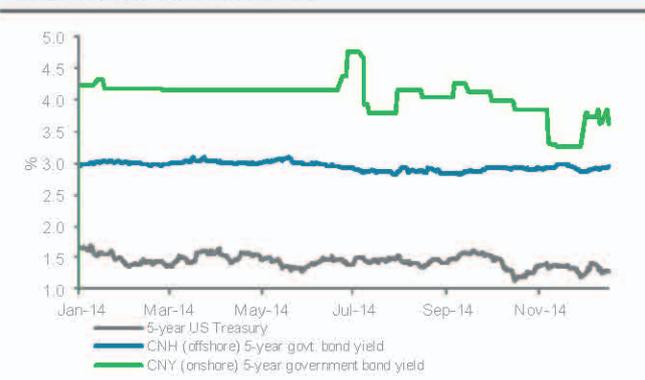
Source: Bloomberg, Standard Chartered Bank

## CNY bonds: Internationally competitive

CNY bonds are one of our top picks within global bonds. Yields of 4-6% (within the investment grade space) and the outlook for further interest rate cuts means that local currency returns are likely to be around the mid-single digits in 2015. We believe this is attractive relative to USD bonds where local investors have to worry about the possibility of the CNY strengthening against the USD.

We prefer bonds with a short maturity and high credit quality. In theory, our view on local interest rates would mean we prefer long-duration bonds as falling yields have a greater impact on returns at the longer end of the yield curve. However, this outlook is tempered by our concerns that the macro environment may lead to increased defaults and/or corporate stress. Our first line of defence is to focus on higher quality issuers. However, we also recommend shorter-maturity bonds in the belief that these may be less susceptible to the contagion from any defaults and that investors will find it easier to hold to maturity a 2-year bond compared with a 10-year bond.

**Figure 12: Yields: CGB 5Y onshore vs. CGB 5Y offshore vs. US Treasuries**



Source: Bloomberg, Standard Chartered Bank

## China – Reduced tail risk provides entrance opportunity (cont'd)

### China equities: Upgrade to Overweight

**Slower growth, but reduced tail risks.** While we expect growth to slow marginally in 2015, we believe the reforms implemented by the government so far have already materially reduced the risks of a hard landing due to a disruptive default in either local government investment vehicles or wealth management product areas. This warrants a reduced risk premium on Chinese equities, in our opinion.

**Central bank policy is less of a headwind.** We do not believe the interest rate cut in late 2014 signals a reflation effort and believe it is more targeted at limiting the pick-up in non-performing loans and gradually deregulating interest rate markets. If the authorities really wanted to spur economic activity, this would be better served by boosting bank loan quotas or by cutting the reserve requirement ratio (RRR). That said, at the margin, lower interest rates cannot be negative.

**Corporate earnings:** Corporate earnings will be supported by 'lower energy prices, easing monetary conditions and domestic interest rates'. Q3 earnings growth was strong (+9.7% y/y), albeit highly differentiated across sectors. Cyclical sectors such as energy saw weakness while communications, medical, consumer discretionary, industry and utilities showed both strong growth and a pick-up in momentum.

Looking forward, the slowing economic growth in China has led the market to expect earnings growth of 7%, while lower energy prices and domestic interest rates could help support the recovery in corporate earnings. However, while the government's focus on reform is undoubtedly positive for the long run, the short-term impact is difficult to determine with any degree of certainty. Even if China's economic growth and corporate earnings growth are slowing down, we believe that will not significantly impact the stock market.

**Valuation discount might fall.** Chinese equities have been cheap for some time, but the last 3-4 years show that just because something is cheap does not mean it is going to rise in the short term. This is especially the case given the cheapness is concentrated in one sector – banks. However, there are three good reasons why valuations may increase in 2015. To begin with, the Shanghai-HK Stock Connect is likely to encourage flows into the onshore market. Secondly, we are seeing investors increase their allocations to Chinese stocks in general. And finally, the tail risks to this outlook are diminishing, which warrants a reduced valuation discount, in our view. As such, we raise our stance to

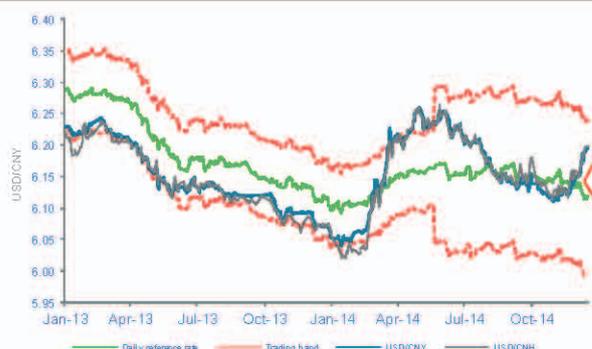
Chinese equities to Overweight, both in the regional and local contexts.

### USD/CNY: Bias is for CNY strength

**Recent CNY weakness likely to be short-lived.** The CNY has recently weakened as investors become more concerned about the potential for capital flight. However, the authorities' decision to lean against the CNY's weakness by pushing down the USD-CNY fixing reinforces our view that recent CNY weakness is likely to be temporary.

**Longer term, we expect USD/CNY to be stable with a slight strengthening bias.** We believe the Chinese authorities will keep the fixing rate for the currency broadly stable in 2015. We see any move to weaken the CNY as being counter-productive for three reasons. First, there is little to gain from weakening the currency to support exports, as these have remained resilient. Second, any depreciation will likely result in China's trade competitors following suit, nullifying any potential gains. Third, depreciation of the CNY may reduce confidence in China's overall reforms progress.

**Figure 13: USD/CNY vs. USD/CNH vs. policy reference rate and policy band**



Source: Bloomberg, Standard Chartered Bank

## Special Focus: Multi-asset income – We carry on...

| Aditya Monappa |

### Diversified income approach still valid

Accommodative monetary policies and a depressed yield environment support the case for an income approach to investing in 2015. While the discussion in the US has shifted to the timing of the first Fed rate hike, the current yield environment remains depressed. In Europe and Japan, policy remains highly accommodative (with further easing likely in Europe), reinforcing the global low-yield environment.

**Low bond yields mean more diversified income approach warranted.** Traditionally, investors focused on generating income would concentrate primarily on bond investments. However, with bond yields so low at the moment, opportunities for generating income are much more limited than has historically been the case. For instance, the 10-year US government bond currently yields just over 2%, compared with the average of over 4.3% between 2000 and 2010. Should yields return to more 'normal' levels, this would also hit bond values (when yields rise, bond prices fall). Therefore, it makes sense for investors to diversify their portfolios in order to balance the need for income today, income tomorrow and the protection of portfolio values.

**There are three key broad asset classes for income investors – bonds, equities and non-core assets.** We believe all three are important in generating sustainable income. Different income assets can be seen as generating different types of yield while assuming varying degrees of risk (see Figure 9):

- **Preservation yield:** Lower yielding assets, important to manage an investor's risk profile.
- **Maintenance yield:** Higher yields, which generate the bulk of the investment income. This includes some assets that are capable of growing the yield over time.
- **Aspiration yield:** Highest yields which top up the investment's current yield, but with a higher degree of risk.

**High dividend equity remains a key investment, in our opinion.** Our core conviction remains for equities to outperform bonds in 2015. While high-dividend equity yields have fallen somewhat as prices have risen, we continue to like this asset class as a source of diversified income within the portfolio. 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 and well advertised, which should limit any short-term volatility. There is also some evidence (albeit based on

limited data points) that dividend equities tend to outperform the market during rate-hiking cycles.

**Figure 14: A sample multi-income allocation**  
Combination of core and non-core income assets

|                                 | Preservation<br>(0 - 3%)*         | Maintenance<br>(3 - 5%)*                                   | Aspiration<br>(5 - 8%)*                    |
|---------------------------------|-----------------------------------|--|--|
| <b>Core Fixed Income</b><br>43% | DM IG Corporates<br>G3 Sovereigns | CNY Bond<br>EM HC IG<br>Leveraged Loans<br>Asia Corporates | INR Bond<br>DM High Yield<br>EM High Yield |
| <b>Core Equity</b><br>43%       |                                   | DM High Dividend<br>EM High Dividend                       |  |
| <b>Non-core Income</b><br>14%   |                                   | REITs<br>Convertible Bonds<br>Covered Call                 | Preferred Stock                            |

\*Range of yields for each income basket

Source: Standard Chartered Bank

For illustrative purpose only. Please refer to the Important Information section at the end of this document for more details.

New areas of focus within a diversified income allocation include the following:

- **INR bonds:** These bonds offer an attractive yield, while interest rate cuts should boost returns. Although the bonds are exposed to currency fluctuations, INR currency risks have declined following substantial accumulation in FX reserves by the central bank and a sharp fall in the current account deficit. This investment sits alongside our other preferred Asian local currency bond pick (CNY bonds), where yields are lower, but so are currency risks, in our opinion.
- **Covered calls (equity):** While we are still positive on global equities, we believe the probability of larger drawdowns (relative to recent history) over the coming year has increased. This strategy focuses on generating additional income through selling call options on equities that you own. As volatility rises, (normally when equity markets have already fallen) this increases the yield available from this strategy.

**Figure 15: High dividend equities have generally performed well around the start of the hiking cycle**  
Total return performance (%)

| Asset Class     | Year | T-12  | T-6   | T+6    | T+12   |
|-----------------|------|-------|-------|--------|--------|
| US HDY Equity   | 1999 |       | 7.6%  | -11.7% | -18.6% |
|                 | 2004 | 12.0% | 1.4%  | 8.5%   | 9.2%   |
| EU HDY Equity   | 1999 |       | 8.1%  | 5.7%   | -2.0%  |
|                 | 2004 | 27.0% | 4.7%  | 19.5%  | 18.2%  |
| Asia HDY Equity | 1999 |       | 35.3% | -0.9%  | -13.6% |
|                 | 2004 | 32.6% | -2.1% | 24.3%  | 30.1%  |

Source: MSCI, Bloomberg, Standard Chartered Bank

## Consensus forecasts

| Real GDP (% , y/y) | Consensus Forecasts |          |       |          |
|--------------------|---------------------|----------|-------|----------|
|                    | 2014E               | Our Bias | 2015E | Our Bias |
| US                 | 2.20                | →        | 3.00  | →        |
| Euro area          | 0.80                | →        | 1.20  | ↗        |
| Japan              | 0.90                | →        | 1.00  | ↗        |
| China              | 7.40                | →        | 7.00  | →        |

| Inflation (% , y/y) | Consensus Forecasts |          |       |          |
|---------------------|---------------------|----------|-------|----------|
|                     | 2014E               | Our Bias | 2015E | Our Bias |
| US                  | 1.70                | →        | 1.70  | →        |
| Euro area           | 0.50                | →        | 0.90  | ↘        |
| Japan               | 2.80                | →        | 1.70  | →        |
| China               | 2.10                | →        | 2.40  | ↘        |

| Policy rate (%) | Consensus Forecasts |          |           |          |
|-----------------|---------------------|----------|-----------|----------|
|                 | 1H 2015             | Our Bias | 2H 2015   | Our Bias |
| US              | 0.25-0.50           | →        | 0.75-1.00 | →        |
| Euro area       | 0.05                | →        | 0.05      | →        |
| Japan           | 0.10                | →        | 0.10      | →        |
| China           | 5.25                | →        | 5.25      | ↘        |

| FX      | Consensus Forecasts |          |         |          |
|---------|---------------------|----------|---------|----------|
|         | 1H 2015             | Our Bias | 2H 2015 | Our Bias |
| EUR/USD | 1.20                | ↘        | 1.19    | ↘        |
| GBP/USD | 1.56                | →        | 1.55    | →        |
| USD/CHF | 1.01                | ↗        | 1.03    | ↗        |
| AUD/USD | 0.82                | ↘        | 0.81    | ↘        |
| NZD/USD | 0.75                | →        | 0.73    | →        |
| USD/CAD | 1.15                | →        | 1.16    | →        |
| USD/JPY | 120                 | ↗        | 124     | ↗        |
| USD/CNY | 6.10                | →        | 6.03    | →        |
| USD/SGD | 1.32                | →        | 1.32    | →        |
| USD/INR | 62.40               | ↘        | 62.50   | ↘        |
| USD/IDR | 12,412              | →        | 12,500  | →        |
| USD/THB | 33.1                | →        | 33.6    | →        |
| USD/PHP | 45.3                | →        | 45.5    | →        |

### Legend

↗ Significantly higher bias; ↗ Moderately higher bias; → No strong bias; ↘ Moderately lower bias; ↘ Significantly lower bias

Source: Bloomberg, Standard Chartered Bank

## 2015 key events

| Month             | Country/Region  | Event  |
|-------------------|-----------------|--|
| December 17, 2014 | US              | FOMC meeting   |
| Q1 2015           | Egypt           | Parliamentary election                               |
| January 15        | EU              | Opinion by European Court of Justice on the OMT case |
| January 22        | EU              | ECB meeting  |
| January 29        | US              | FOMC meeting   |
| Jan-Feb           | Greece          | Presidential election                                |
| February          | EU              | EU Commission publishes winter economic forecast     |
| March             | The Netherlands | Upper House election                                 |
| March 5           | EU              | ECB meeting  |
| March 15          | US              | Debt ceiling expiration                              |
| March 19          | US              | FOMC meeting   |
| April 1           | Malaysia        | GST implementation                                   |
| April 15          | EU              | ECB meeting  |
| April 17-19       | US              | World Bank/IMF Annual Spring Meetings                |
| April 30          | U.S.            | FOMC meeting   |
| May 7             | U.K.            | General election                                     |
| May               | Spain           | Regional elections                                   |
| June 3            | EU              | ECB meeting  |
| June 13           | Turkey          | General election                                     |
| June 18           | US              | FOMC meeting   |
| July 16           | EU              | ECB meeting  |
| July 30           | US              | FOMC meeting   |
| July 31           | EU/Russia       | Sanctions review                                     |
| September 3       | EU              | ECB meeting  |
| September 14      | Denmark         | General election                                     |
| September 18      | US              | FOMC meeting   |
| October           | Poland          | General election                                     |
| October           | Switzerland     | General election                                     |
| October           | Canada          | General election                                     |
| October           | Argentina       | Presidential election                                |
| October           | Portugal        | General election                                     |
| October           | Thailand        | General election                                     |
| October 22        | EU              | ECB meeting  |
| October 29        | US              | FOMC meeting   |
| December          | Spain           | General election                                     |
| December 3        | EU              | ECB meeting  |
| December 17       | US              | FOMC meeting   |
| Dec 31            | ASEAN           | ASEAN Economic Community launch                      |

Source: Bank Credit Analyst, Bloomberg, Standard Chartered

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