Standard Chartered

Stay invested and deploy cash selectively

Global equity markets are entering May with strong momentum. However, a mixture of seasonality and event risks suggests we should be prepared to take advantage of increased volatility at some point in the coming months.

Our investment themes have performed well. Global equity returns have almost matched our full-year expectations. Seasonality and rising event risks suggest volatility may rise in the coming months. The timing of this is uncertain. Last year, equities peaked on 4 September, 4.4% above the end-April level.

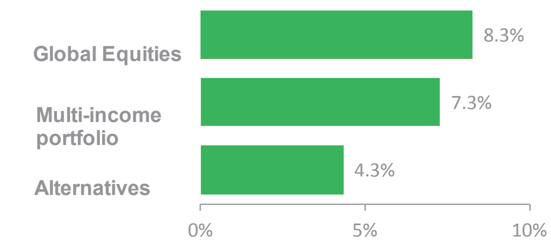
We recommend investors remain invested in equity markets and ride through any short-term volatility. For investors with cash on the sidelines, we would allocate more to covered calls and diversified income assets including Developed Market (DM) high-dividend paying equities. We prefer to wait for a more attractive entry point for global equities.

Implications for investors:

- **Global equities likely to be supported near term.** Global equity indices have broken to new highs, suggesting momentum is supportive of further outperformance in the immediate future.
- **Europe and Japan equity markets (both on a currency-hedged basis) are still our preferred regions.** Europe looks to be on the cusp of joining Japan as the only region experiencing upgrades to corporate earnings' forecasts.
- **Preparing for increased volatility.** Selling equities in anticipation of increased volatility is a risky strategy. Getting the timing of exit and re-entry right is extremely challenging, even for professional investors. As such, we prefer tweaks in allocations towards covered calls and diversified income assets including high-dividend paying equities from DMs.
- **We prefer to play China through the offshore, H-share market.** The onshore China market is starting to exhibit some bubble-like features – up more than 90% over the past six months. It is incredibly difficult to predict how bubbles will play out. It is quite possible the market will test the 2008 highs (around 28% higher), but positioning for such a rally may expose an investor to the risk of semi-permanent losses. Therefore, we suggest long term investors look at the offshore market, which is trading at a significant discount to the onshore market.

Contents

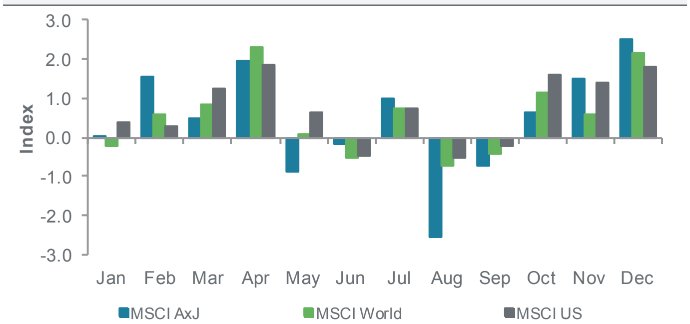
2015 investment themes have performed well
W.I.D.E.N. performance since Outlook 2015 was published



**For the period 12 December 2014 to 23 April 2015*
Income basket is as described in the Outlook 2015: A Year to W.I.D.E.N. Investment Horizons, Figure 60
Source: Bloomberg, Standard Chartered

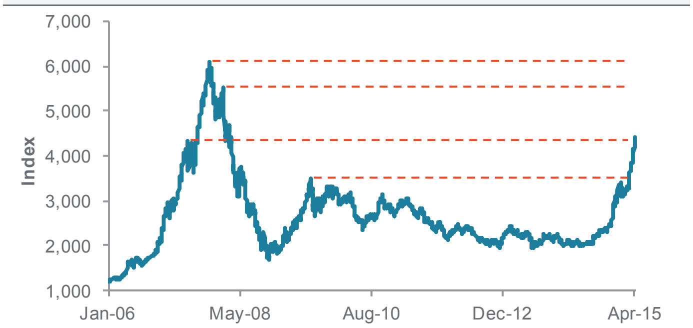
Steve Brice	*Chief Investment Strategist*
Clive McDonnell	*Head, Equity Investment Strategy*
Manpreet Gill	*Head, FICC Investment Strategy*
Adi Monappa, CFA	*Head, Asset Allocation & Portfolio Solutions*
Audrey Goh, CFA	*Investment Strategist*
Victor Teo, CFA	*Investment Strategist*
Tariq Ali, CFA	*Investment Strategist*
Abhilash Narayan	*Investment Strategist*

Equities entering a seasonally weak period
Average USD returns since 1995 (by month)



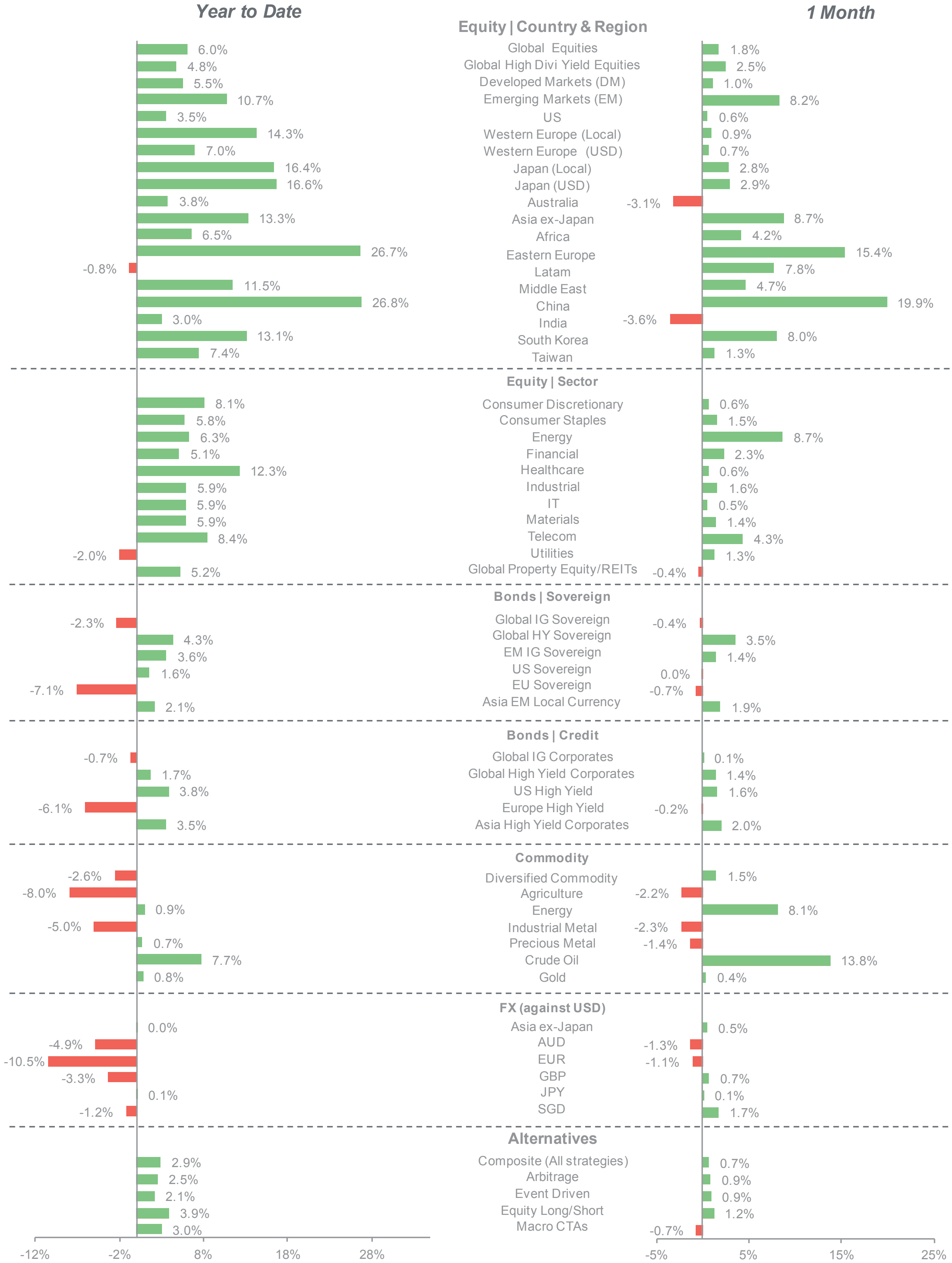
Source: Bloomberg, Standard Chartered

Overheating of China A-share market
Shanghai Composite Index



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 2014 to 23 April 2015 and 1-month performance from 23 March to 23 April 2015*

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

Investment Strategy

- **It is that time of year again. 'Sell-in-May' concerns are back with a renewed focus, given the risk-heavy event calendar in early May. However, seasonality does not guarantee a set pattern of returns every year.**
- **Equity momentum remains strong, as illustrated by global equities' breakout to record highs. We would remain Overweight equities, with a preference for Europe and Japan. We are reluctant to reduce exposure, despite seasonal and event risks.**
- **Covered calls and diversified income assets including high-dividend-yielding equities may help reduce volatility should markets experience an 'air pocket'.**

Early May contains a number of event risks. An IMF loan repayment by Greece, UK elections and the Australian budget offer opportunities for investors to worry, should they be so inclined. However, the 'sell-in-May' effect is far from uniform. In 2014, for example, global equities gained about 3.5% over May and June. Though September was a weak month, the subsequent recovery was quick.

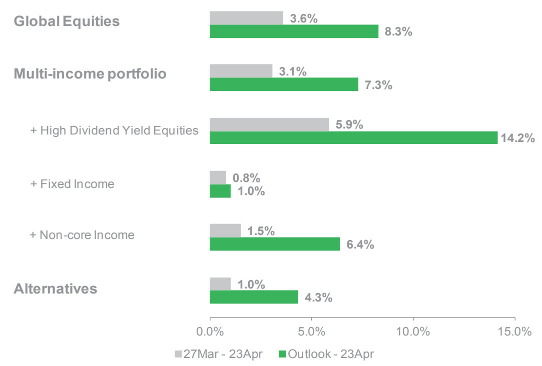
Global equity market momentum remains strong. Global equities broke above both 2007 and mid-2014 highs. We are reluctant to cut back on equity exposure at such a juncture, though we would maintain FX hedges in our most preferred regions (Europe and Japan).

Implications for investors:

- **Don't fight the positive momentum in equities.** Their breakout above the previous record high, the likely delay in the first Fed interest rate hike until September and improving earnings revisions in Europe remain key tailwinds.
- **Diversified income assets and alternative strategies remain a great way to balance yields/returns and risks.** While it is difficult to ignore the yield on high-yield bonds in an extending zero-rate environment, for example, we believe there is value in diversifying the risk as far as possible ahead of event and seasonal risks by holding a wide range of income assets.
- **Covered calls and diversified income assets including high-dividend equities may help reduce volatility.** Covered calls have historically outperformed broad long-only equity exposure during periods of muted or slightly negative returns. High-dividend paying equities provide an income buffer.
- **Act quickly to take advantage of any spike in volatility.** Should there, indeed, be any spikes in volatility, we expect them to be short-lived. This means it will pay to be quick to take advantage of any such spike through currency and equity markets.

Bullish W.I.D.E.N. themes have performed well so far

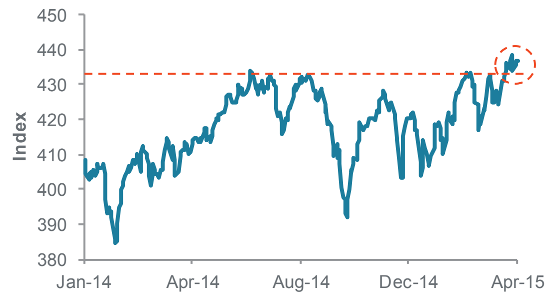
W.I.D.E.N. performance since Outlook 2015 was published and since last Global Market Outlook***



** For the period 12 December 2014 to 23 April 2015*
Source: Bloomberg, Standard Chartered
*** For the period 27 March 2015 to 23 April 2015*
** Income basket is as described in the Outlook 2015: A Year to W.I.D.E.N. Investment Horizons, Figure 60*

Global equities' break to new highs underscores positive momentum

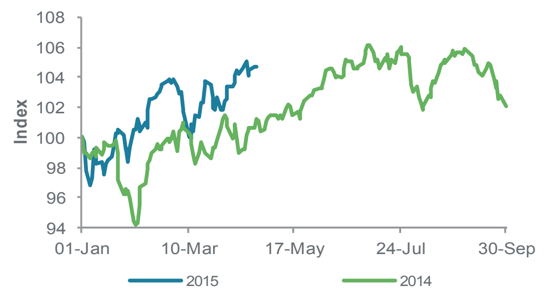
MSCI World Index



Source: DataStream, Standard Chartered

Global equities' returns over Q1 2015 similar to those over Q1 2014

MSCI World in 2014 and 2015, 1 January =100



Source: Bloomberg, Standard Chartered

Asset Class	Relative Outlook	Start Date
Cash	UW	Feb-12
Fixed Income	UW	Jan-11
Equity	OW	Aug-12
Commodities	UW	Dec-14
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

	Sub-asset Class	Relative Outlook	Start Date
Cash		UW	Feb-12
Fixed Income	DM IG	UW	Jan-11
	EM IG	OW	Dec-14
	DM HY	N	Jul-14
	EM HY	N	Dec-14
Equity	US	N	Feb-15
	Europe	OW*	Jul-13
	Japan	OW*	Nov-14
	Asia ex-Japan	UW	Dec-14
	Other EM	UW	Aug-12
Commodities		UW	Dec-14
Alternatives		OW	Jun-13

**Currency-hedged*

Economic and policy outlook

Soft US data implies a Fed rate hike is likely in September or later. European growth remains on an uptrend. However, persistent deflationary pressures point to a prolonged period of bond purchases by the ECB. Falling inflation in Japan caused by lower oil prices is unlikely to lead to larger BoJ stimulus. A slowdown in China's economy points to further policy easing.

- **US economy slowed in Q1, delaying the timing of a Fed rate hike.** Bad weather, a strong USD and low oil prices combined should hurt growth in Q1. We expect a recovery in the coming months on a strong job market and consumption. As the labour market tightens, we expect the Fed to raise rates in September.
- **Euro area continues to accelerate, but deflation persists.** The ECB's quantitative easing (QE) programme has helped revive business, investor and consumer confidence. However, continued deflationary pressures and uncertainty over Greece's bailout point to an extended period of QE (lasting well into 2016).
- **BoJ likely to hold off further stimulus for now.** BoJ's record stimulus announced in October has helped revive growth following last year's sales tax hike. Although inflation is likely to fall sharply this year due to lower oil prices, BoJ Governor Kuroda said he expects it to move towards a 2% target in 2016. We expect the BoJ to maintain its stimulus measures for now.
- **China's growth slowdown, India's falling inflation point to further easing.** China's economy slowed significantly in March, triggering another round of easing by the PBoC. Inflation in India has continued to decline, while exports have contracted for three months in a row. We expect further policy easing in China, India and other markets in Asia as inflation remains subdued.

US: Slowdown in Q1 likely to delay Fed rate hike to September

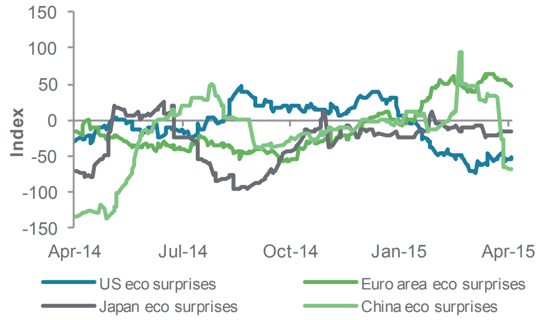
- **Bad weather, a strong USD, low oil prices hurt Q1 growth.** Consensus estimates suggest US growth may have slowed to 1.35% in Q1 from 2.2% in Q4. This is mainly due to yet another harsh winter, which hurt retail sales, while the strong USD hit exports and low oil prices curbed energy-related investments.
- **We expect economy, job market to rebound in Q2.** Despite the slowdown in job creation in March, the job market remains robust, with a strong pipeline of unfilled positions. A recovery in hiring is likely to lower the unemployment rate towards the Fed's revised 5.0-5.2% target in H2 (from 5.5% in March). Meanwhile, consumer confidence is near an eight-year high. As hiring picks up, we expect consumption to rebound, driving a recovery.
- **Core inflation, wages picking up.** Although headline inflation contracted in Q1 due to the plunge in energy costs, core inflation (which excludes food and energy) has been recovering gradually (to 1.8% in March). As the job market tightens, we expect wages to pick up, lifting core inflation towards the Fed's 2% target.
- **Sustained pickup to trigger a Fed rate hike in September.** We believe the Fed is inclined to err on the side of caution and hold off any rate hike until it is confident the economy can bear it. We expect the broad-based recovery to create such a condition by late Q3 and expect a rate hike in September, at the earliest.

Europe: Growth continues to recover, but deflation persists

- **Consensus growth estimates upgraded.** The sustained pickup in investor, business and consumer confidence has prompted an upward revision of Euro area growth estimates for 2015 to 1.4%, closing in on the ECB's own forecast of 1.5%. Growth, initially led by Germany, has now broadened to include other markets.

Euro area has surprised positively; US data appears to have bottomed and China has slowed sharply

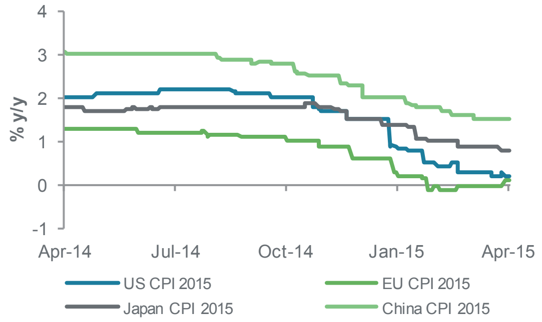
Economic Surprises Indices for major economies



Source: Citigroup, Bloomberg, Standard Chartered

Inflation forecasts continue to be downgraded worldwide; Euro area inflation may have bottomed

Consumer inflation forecasts for 2015 (%, y/y)



Source: Bloomberg, Standard Chartered

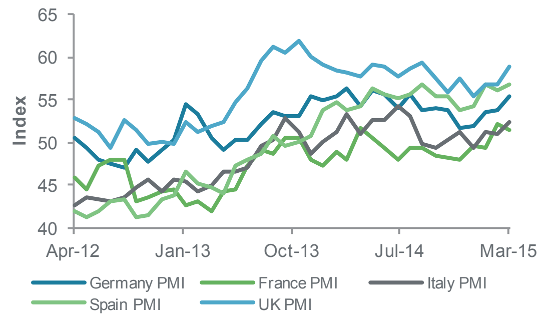
Strong pipeline for US hiring suggests labour markets are likely to pick up, driving wages higher

US total job openings, small business jobs hard to fill, (Index: 100 = March 2007)

Source: Bloomberg, Standard Chartered

Europe's recovery has broadened with most major economies turning up this year

PMIs for major European economies



Source: Bloomberg, Standard Chartered

- **Deflationary pressures remain.** Euro area consumer prices have contracted for the fourth consecutive month, although the declines have slowed recently, with a 0.1% drop reported for March. Meanwhile, producer prices – reflecting prices at the factory gate – contracted for the nineteenth month in February.
- **ECB's Draghi reassures on continued QE**. President Draghi took pains to dispel worries that the ECB would unwind its QE as growth picks up. Given the ECB's 1.5% inflation forecast for 2015 and 1.8% forecast for 2016 (which look optimistic), we concur with the ECB's assessment that QE may need to last until its scheduled end in September 2016, if not longer.
- **Greek bailout talks raise uncertainty as its deadline approaches**. Greece is scheduled to repay more than USD 2bn to the IMF between May and June – an amount likely beyond its means. Therefore, it needs to agree on a new debt package and pledge to implement reforms by May to avoid default.
- **Greek default (worst-case scenario) unlikely to stall Euro area recovery.** We believe other peripheral economies, such as Spain, Portugal and Ireland, have undergone extensive reforms and are already on the path to recovery. Also, Greece's external debt is mostly held by Euro area governments and multilateral institutions. Thus, a Greek default, if it were to happen, is unlikely to stall the ongoing recovery in the Euro area.

Japan: BoJ unlikely to add to stimulus as growth recovers

- **BoJ Governor Kuroda upbeat on growth.** After maintaining a record stimulus in early April, BoJ Governor Kuroda said he was optimistic that low oil prices, rising wages and a weak JPY are likely to sustain a growth recovery this year. The BoJ raised its annual asset purchase target to JPY 80trn in October, helping the economy recover from the impact of last year's sales tax rise.
- **BoJ likely to look through any drop in inflation.** Although inflation is likely to drop sharply in Q2, the BoJ is likely to view it as a temporary impact of lower oil prices and the base effect of last year's tax rise. Kuroda said he expects inflation to return towards the BoJ's 2% target in 2016. Combined with the growing political unease and JPY's weakness hurting real incomes, we believe the BoJ is likely to maintain its stimulus on 30 April.

China: PBoC likely to ease further as growth slows sharply

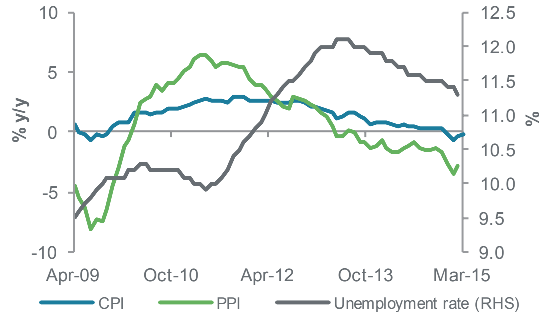
- **Sharp slowdown prompts bank reserve requirement cuts.** China's Q1 GDP growth slowed to 7% y/y, the slowest pace since 2009, prompting the central bank to cut the bank reserve requirement by 100bps. We believe the broad-based slowdown, which hurt investments, exports and industrial growth, warrants further easing, including another rate cut in the coming months.
- **Low inflation, high real rates provide ample scope for more easing**. Consumer inflation, at 1.4%, remains below the government's 3% target. Benchmark interest rates at 5.35% imply real rates of 4%. This indicates that the PBoC has enough capacity to ease further, especially to boost priority sectors.

Other EMs: Falling Indian inflation points to further rate cuts

- **RBI Governor Rajan hints at further cuts**. India's consumer inflation fell to 5.2% in March while wholesale prices continued to contract. Meanwhile, exports fell for the third month in a row. We expect the RBI to cut rates for the third time this year in Q2.
- **Asia may ease further amid low inflation, falling exports**. China, South Korea, Taiwan and other Asian economies saw exports contract in March, some for consecutive months. With inflation subdued, we expect central banks to ease policy further.

Euro area inflation remains weak while high unemployment suggests labour market slack

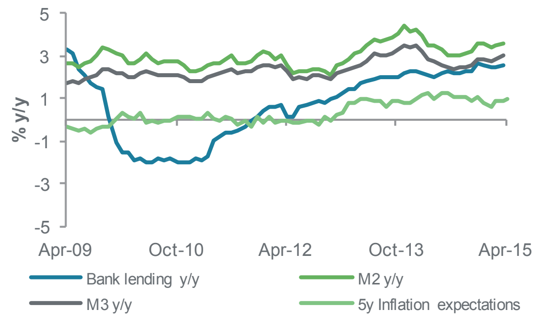
Euro area CPI and PPI (%, y/y); Unemployment rate (%)



Source: Bloomberg, Standard Chartered

Japan's bank lending and liquidity indicators have improved in recent months

Growth in Japan's bank lending, M2, M3, five-year inflation expectations five years from now (%, y/y)



Source: Bloomberg, Standard Chartered

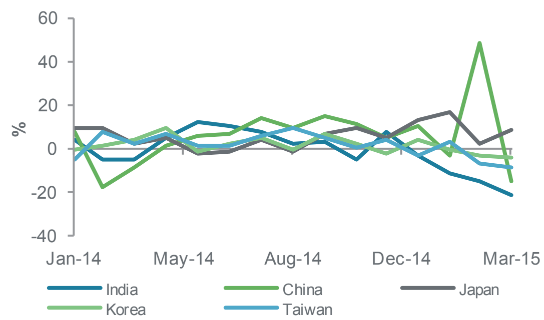
China's forward-looking indicators remain weak

PMIs for new orders, new export orders and employment

Source: Bloomberg, Standard Chartered

Asian exports have contracted in recent months

Export growth (%, y/y)



Source: Bloomberg, Standard Chartered

Fixed Income – Underweight

- We continue to like Emerging Market (EM) USD government bonds, with a preference for the investment grade (IG) component.
- We also maintain our preference for corporate credit globally, but prefer to limit High Yield (HY) exposure to a Neutral level, ideally within a diversified multi-income allocation.

G3 and EM (USD) sovereign bonds

- **US Treasury yields likely to remain capped.** The continued fall in German Bund yields means they are likely to continue weighing on US 10-year Treasury yields.
- **We continue to prefer a moderate maturity profile in USD bond allocations.** The gap between US 2-year and 10-year yields has increased over the past month. However, we believe this is temporary and the yield gap should continue narrowing, consistent with the previous Fed hiking cycles. The investment implication of this is that we continue to prefer moderate maturities (5-7 years) across USD-denominated bond allocations.
- **We like EM government bonds, with a preference for the IG component.** EM IG bonds have been among the best-performing bond asset classes in 2015. Despite this, it remains among the few areas that remain inexpensive relative to history. We would be more selective within EM HY bonds – absolute yields are undoubtedly attractive, but continued risks in sovereigns like Venezuela mean a more selective approach is prudent.

Corporate credit (USD)

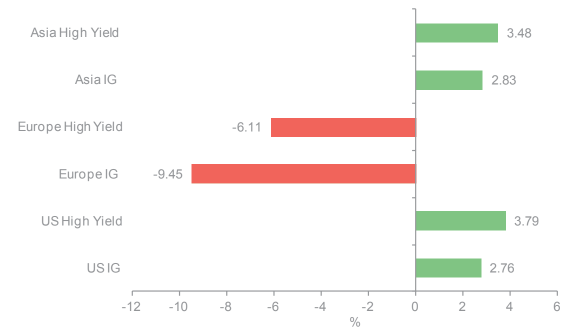
- **We prefer benchmark exposure to DM HY bonds within a diversified income portfolio.** These bonds have rebounded over the past month. Absolute yields of nearly 6.0%, in today's environment, are not to be scoffed at. However, we remain cautious because:
  - The recent HY energy company funding methods are not bondholder-friendly, warranting a higher risk premium.
  - European HY corporate bonds remain expensive, offering little further upside.
  - Tightening monetary conditions due to a strong US dollar are a headwind.
  - Anecdotal evidence suggests trading liquidity has reduced by approximately 75% over the last few years amid a tightening regulatory environment. This increases the risk of sharp price moves and, at an extreme, could mean an inability to buy or sell when it is most needed.

  On balance, we believe Neutral or benchmark exposure to DM HY bonds, ideally within a part of the diversified income portfolio, best balances the yield on offer with the still-sizeable risks.
- **We remain comfortable with Asia corporate credit.** The Asian credit market has been weighed by Chinese credit concerns and corporate governance issues. However, valuations remain fair and Asian credit has been relatively less volatile over the last few years. Hence, we continue to favour benchmark exposure.

Asian local currency bonds

- **We maintain our preference for CNY, CNH and INR bonds.** Although short-end yields have gone up in CNY and CNH bonds, we remain comfortable given the high spreads on offer, the currency and the likelihood of further monetary easing. In fact, short-end yields have already begun to decline.

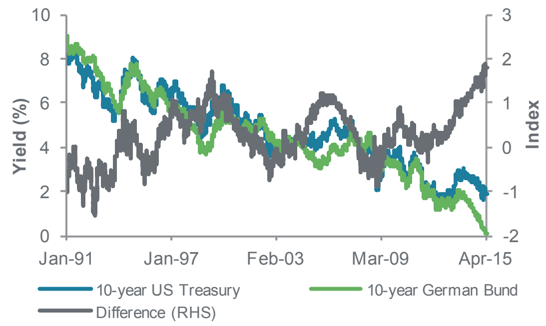
Performance of fixed income YTD* (USD)



** For the period 31 December 2014 to 23 April 2015*
Source: Barclays Capital, JPMorgan, Bloomberg, Standard Chartered. Indices are Barclays Capital US Agg, US High Yield, Euro Agg, Pan-Euro High Yield, JPMorgan Asia Credit Index

Yield differential between 10-year US Treasury and Bunds remain close to record highs

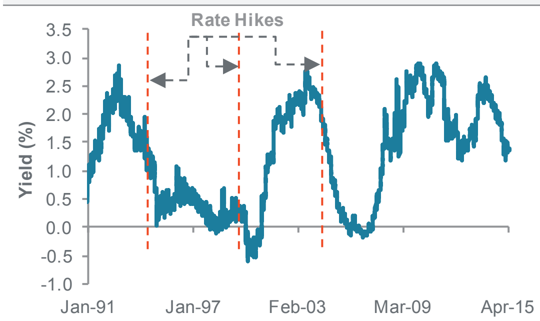
10-year yields of US Treasury and German Bunds and their yield differential



Source: Bloomberg, Standard Chartered

US yield curve likely to resume its flattening

Differential between 10-year and 2-year US Treasury yields (10-2 yield curve)



Source: Bloomberg, Standard Chartered

Mixed fundamental outlook for DM HY bonds

HY score card

	US	Europe
Lending conditions	↔	✓
Expected defaults	×	✓
Repayments	✓	✓
Valuations	↔	×
Corp credit quality	×	×

Source: Bloomberg, Standard Chartered

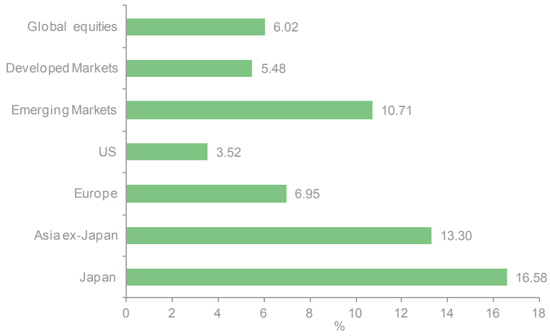
Equity – Overweight

- **We suggest investors remain fully invested** as we enter a seasonally weak period for global equities. For investors sitting on cash, we suggest allocation to the following strategies: covered calls in the US or Asia and diversified income assets including high-dividend-yielding DM equities.
- **Entering a seasonally weak period for global equities.** The average return for global equities during the May-September period since 1991 is -1%. There are numerous events creating the risk of a market pullback, including Greece's bond repayments and the UK election. However, timing any potential pullback is fraught with difficulties.
- **Maintain Overweight on Europe and Japan (currency-hedged), Hong Kong upgraded to Neutral**. Our country recommendations look ahead 12 months. As such, we would not suggest making any changes to our country preferences based on the risk of short-term weakness. We remain Overweight Europe and Japan on a currency-hedged basis, and Neutral on the US. Within Asia, we upgraded MSCI Hong Kong to Neutral.
- **M&A emerging as a major theme.** Global M&A in Q1 was USD 888bn, up 23% from the same period in 2014, and is the highest Q1 volume since the Global Financial Crisis (GFC). Asia witnessed the greatest increase in deal volumes, rising 38% to USD 221bn. Technology M&A led the global sector league table.

Seasonally weak period for equities

- **Historically, May to September has been a period of low returns for global equities**, with average returns of -1% since 1991. Year-to-date, Developed Market (DM) equities are up 4% and Emerging Markets (EM) are up 10%. Hence, a period of consolidation is to be expected at some point even before taking seasonality into account. Clearly, we need a catalyst to bring about a pullback, especially with momentum being supportive with global equities hitting new all-time highs. However, there are plenty of potential catalysts on the horizon, including:
  1) **Greece**: May is filled with deadlines for Greek bond repayments, including IMF repayments of EUR 205m on 1 May and EUR 780m on 12 May. The government must submit its revised list of reforms by the start of May as the crucial Eurogroup meeting is scheduled for 11 May.
  2) **UK election**: Voters go to the polls on 7 May. A coalition government is highly likely, but its composition is very much in the air. For investors, a labour-led coalition would be perceived as equity market unfriendly, given their proposals for an increase in bank levy and higher property taxes. A conservative-led coalition is also not ideal for investors, given its commitment to a referendum on EU membership, which creates further uncertainty.
  3) **Central bank meetings** in late April and May in the following countries: US (29 April), UK (11 May), Australia (5 May), Indonesia (19 May) and Korea (15 May).
- **We suggest that investors stay fully invested** during the May-September period. For those with cash, we suggest allocation to the following strategies: covered calls in the US or Asia and diversified income assets including high-dividend-yielding DM equities. This approach ensures equity exposure, but manages the risk of trying to time markets.

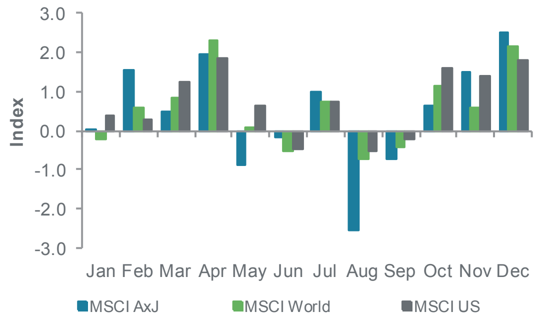
Performance of equity markets YTD* (USD) update



** For the period 31 December 2014 to 23 April 2015*
Source: Bloomberg, Standard Chartered. MSCI Indices are USD total return

October-April have traditionally been seasonally strong, May-September seasonally weak

Monthly average change in equity markets



Source: Bloomberg, Standard Chartered

Greece's repayments due to surge in May, leading up to a EUR 7.2bn disbursement by the EU in end-June

May-June key dates in Greece

Start of May	Submission of revised list of reforms
1 May	EUR 205m to IMF
11 May	Eurogroup meeting
12 May	EUR 780 to IMF
5 June	EUR 310 to IMF
12 June	EUR 350m to IMF
16 June	EUR 585m to IMF
19 June	EUR 350m to IMF
End-June	EUR 7.2bn due for disbursement

Source: Standard Chartered

Remain Overweight Europe and Japan

- Japanese equities have witnessed rising earnings revisions since early 2014, which have contributed to the surge in the Nikkei. Over the same period, Europe has also witnessed an improving trend in earnings revisions, which, in combination with QE, is driving the DJ STOXX higher. Currency weakness is the key factor driving revisions higher in both markets.

HK upgraded to Neutral, maintain Overweight Europe and Japan

- **We have upgraded MSCI Hong Kong to Neutral** from Underweight. The upgrade reflects domestic mutual funds participating in the Shanghai-Hong Kong Stock Connect for the first time and a revision to the expected timing of the first Fed rate hike. The China Securities Regulatory Commission (CSRC) announced in late March that domestic mutual funds can participate in the Stock Connect, which has resulted in a surge of activity. The southbound channel for flows was fully utilised on 9-10 April.
- Chinese mutual funds were already able to buy HK stocks via the Qualified Domestic Institutional Investor (QDII) programme. Once these funds were allowed to participate in the Stock Connect, the quota available to them was fully utilised, and they have had to close their funds to new subscriptions. This signals pent-up demand for HK-listed stocks, which could re-rate further once quotas are raised and funds open again for new subscriptions.

China A-shares surge

- **Improved domestic liquidity conditions**, as reflected in the PBOC RRR cut on 19 April, have boosted the performance of domestic-listed China A–shares, and this has had a positive spill-over effect on Chinese stocks listed on the Hong Kong Stock Exchange. China A-shares are up 18% and HK-listed H-shares are up 17% MTD. We remain Overweight China, which is actionable via H-shares listed in Hong Kong.
- **We are more cautions on China A-shares**, highlighting that the market has bubble-like characteristics. Given the level of positive sentiment and the improved domestic liquidity conditions, a trend reversal is unlikely in the short term, although periodic corrections of 5-10% are possible. Importantly, authorities' efforts to reduce margin finance activity and speculation have been partially successful, with margin finance as a percentage of turnover declining to 15% from 19%.

M&A emerging as a major theme

- **Global M&A amounted to USD 888bn in Q1**, up 23% from the same period in 2014, and is the highest Q1 volume since the GFC. The surge in activity has been reflected in US investment banks' earnings, which beat expectations in Q1. A pickup in M&A is a normal trend as the cycle matures and corporates look for acquisitions to enhance organic growth.
- **The biggest deal announced so far this year is Heinz's acquisition of Kraft foods for USD 45bn.** This is on par with the biggest deal of 2014, Comcast's proposed acquisition of Time Warner. One potential sign of a peak in the cycle is a deal surpassing the prior cycle high, which was the RBS-led acquisition of ABN AMRO for USD 100bn in 2007. We are still some way from this traffic light turning red, despite the bull market entering its sixth year.
- In terms of regional and sector M&A, Asia witnessed the greatest increase in deal volumes during Q1, rising 38% to USD 221bn. Technology M&A led the global sector league table with USD 104bn in deals. (Source: Dealogic)

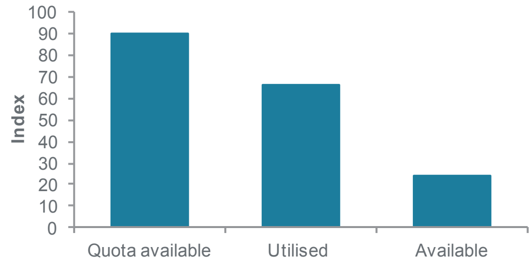
Flows fully utilised available Stock Connect quota on 9-10 April

Stock Connect southbound flows

Source: Bloomberg, Standard Chartered

Allocated quota used up, but unallocated quota still available

Chinese QDII quota breakdown

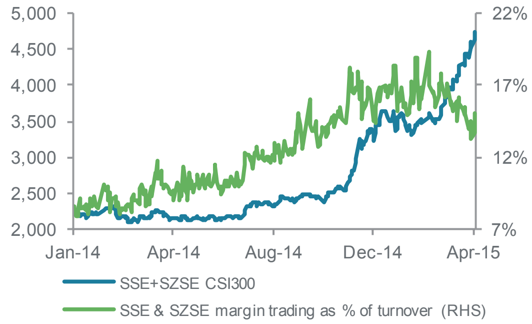


Note: Once the domestic funds requested quota has been utilised, they must request additional quota from the CSRC

Source: CSRC, Standard Chartered

Shanghai and Shenzhen margin trading as a percentage of the turnover has declined

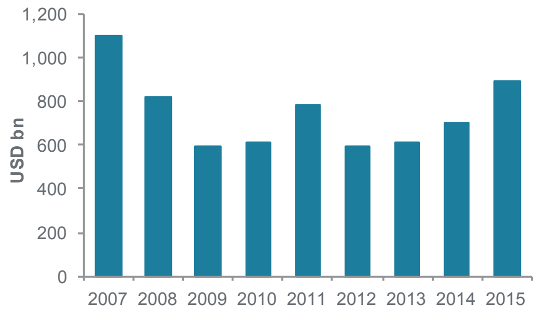
China A-share margin trading



Source: WIND, Standard Chartered

Deals have surged to a post-GFC peak

Q1 global M&A volume



Source: Dealogic, Standard Chartered

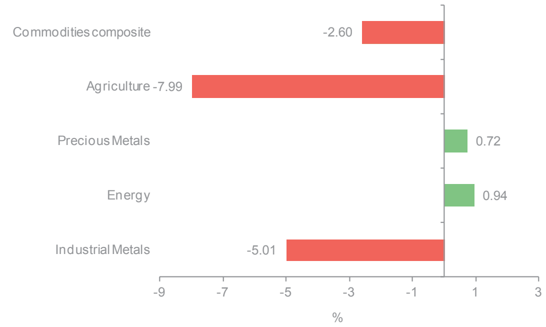
Commodities – Underweight

- We remain Underweight commodities. A stronger USD and a weak supply-demand balance is likely to weigh on prices.
- It may be too early to turn bullish on oil given the continued rise in inventories. Gold may find temporary support amid upcoming event risks, though its longer-term outlook remains weak.

We remain Underweight commodities. We believe commodities as a group are likely to weaken further over a medium-term horizon. A stronger USD and weak supply-demand dynamics are likely to weigh on prices. These factors largely apply across the commodities spectrum, causing us to expect little divergence in performance among individual commodities.

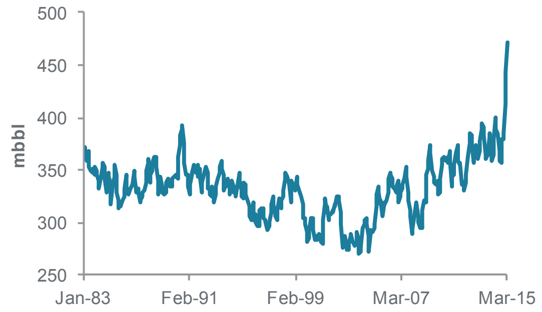
- **We remain Neutral energy.** While we remain constructive on oil on a 12-month view, we do not see convincing evidence that the short-term weakness is over. US oil inventories remain at record levels amid no expectations of a cutback on major producers, including the OPEC. Simultaneously, we do not expect demand to pick up in a meaningful way short term as the global economy continues to have several weak spots. On a longer-term basis, we believe prices will rebound, but the timeline remains unclear. US rig counts continue to drop, suggesting long-term drivers of supply have begun to weaken.
- **We remain Neutral on gold.** We expect modestly negative price movement in gold over a 12-month horizon. A stronger USD, higher interest rates and a more risk-taking environment will be the main drivers of lower gold prices, in our view. In the short term, however, we do not expect significant price weakness. In the month ahead, Greece's payments to the IMF and the possibility of a potential default, UK elections and geopolitical tensions in Ukraine and the Middle East are likely to fuel short-term demand for gold.
- **We remain Neutral on base metals.** Overall, we expect base metal prices to remain depressed. In our opinion, lower construction demand from China is likely to be a major factor. On a relative basis, we expect zinc to outperform copper, iron ore and aluminium. On the supply side, inventories in zinc remain near its five-year low and have just started to pickup. Furthermore, recent mine closures and no new major areas of production point to a more constrained supply situation. On the other hand, inventories in copper, iron ore and aluminium remain elevated relative to their five-year averages.
- **We remain Neutral on agricultural commodities.** We do not expect agriculture commodity prices to pick up meaningfully in 2015. Stock levels in key commodity prices, including cotton, wheat and sugar, remain significantly elevated relative to history. In general, production remained high in 2014 amid more stable weather conditions and high prices in H1. However, we expect consumption to pick up and production to fall in 2015 as prices overall remain near their lowest in almost five years.

Performance of commodities YTD* (USD)



** For the period 31 December 2014 to 23 April 2015*
Source: DJUBS, Bloomberg, Standard Chartered
DJUBS, DJUBS Agri, DJUBS Precious metals, DJUBS Energy, DJUBS Industrial metals

US crude oil inventories continue to surge for another month to new record levels
US total crude oil inventories

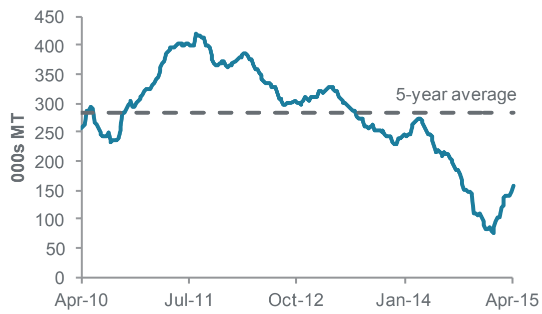


Source: Bloomberg, Standard Chartered

Gold prices remain supported short term
Gold price

Source: Bloomberg, Standard Chartered

China zinc inventories rising from a low base
Shanghai Futures Exchange, deliverable zinc stocks



Source: Bloomberg, Standard Chartered

Alternative Strategies – Overweight

- We remain Overweight alternative strategies. Our supportive themes – policy divergence, clearer market trends and demand for protection against volatility – remain very much in place.
- Macro strategies have suffered recently as they remain highly correlated with the US dollar and its recent consolidation. However, we expect this to be temporary.
- Our favoured strategies remain equity long/short, macro/CTA and event-driven strategies.

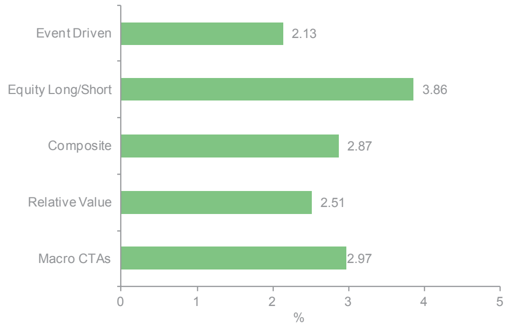
Macro strategies were held back by a consolidating USD. The dollar's recent consolidation phase has led to a concomitant pause in macro strategies, and the correlation between the two remained high. However, we expect this to be temporary. We believe there is room for the dollar to deliver one further leg-up as we approach the Fed's first rate hike. Continued clear-cut trends across financial markets are likely to be a key source of support, a valuable characteristic going through the period of seasonally lower average returns.

Key drivers of our alternative strategies' Overweight remain in place. A likely delay in the first Fed rate hike does not alter our theme of policy divergence, in our view. The 10-year yield differential between the US and German 10-year bonds, for example, remains close to record highs. In turn, this is likely to mean the longer-term move towards clearer market trends is likely to stay in place, short-term pullbacks notwithstanding.

Conclusion:

Remain Overweight alternative strategies, favouring diversified exposure. Within the asset class, we favour equity long/short, event-driven and macro/CTA strategies.

Performance of alternative strategies YTD* (USD)



** For the period 31 December 2014 to 23 April 2015*
Source: HFRX, Bloomberg, Standard Chartered
HFRX global hedge, HFRX equity hedge, HFRX event driven, HFRX relative value, HFRX macro/CTA

Foreign Exchange

- We expect modest USD strength over a 12-month horizon but expect a period of sideways consolidation short term.
- We see further downside in the AUD and SGD and believe the recent upturn is an opportunity to reduce exposure.

USD: We expect modest medium-term appreciation

We expect moderate USD strength over a 12-month horizon. Our medium-term USD view is based on rising US Fed rates and Treasury yields relative to Europe and Japan. We do not expect other major central banks to reduce stimulus during this period.

In the short term, we are likely to see the USD to continue to trade in a sideways range (see adjacent chart). We believe the lack of additional catalysts and some softer US data has limited further short-term upside in the USD. In our view, a break above the 100 level on the US Dollar Index would signal an end to the consolidation period.

EUR: We expect medium-term depreciation

We expect further EUR weakness over the medium term. Monetary policy divergence remains the main driver of a weaker EUR, in our opinion. We believe the ECB will continue its current easing stance through 2015. While additional easing measures cannot be ruled out, this is not a major assumption behind our weaker EUR view.

In the short term, similar to the USD, we expect the EUR to consolidate in the 1.10–1.05 range. However, any marked increase in concerns of Greece defaulting or exiting the Euro area is likely to induce significant volatility in the EUR. In this regard, the first half of May is when a number of potential risk events converge, including Greece's payments to the IMF.

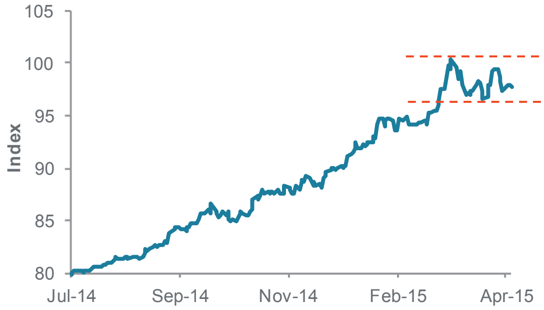
Short term

Refers to a horizon of less than 3 months

Medium term

Refers to a time horizon of 6-12 months

USD likely to consolidate short term
US Dollar Index



Source: Bloomberg, Standard Chartered

JPY: We expect medium-term depreciation. We expect JPY depreciation over the medium term, although the narrow rangebound movement is likely to continue short term. Policy divergence in 2015 continues to be key to our medium-term negative outlook on the JPY. While some improvements have been seen in Japan's macro indicators following QE, we do not believe these are sufficient to warrant a retraction in the easing stance. On the contrary, further easing by the BoJ is possible should inflation expectations fall. In the short term, a lack of any major catalysts is likely to keep the JPY rangebound.

GBP: We remain medium-term Neutral. We remain Neutral on the GBP over a 12-month horizon, but highlight downside risks in the short term. We see further evidence of improved economic prospects in the UK, which is likely to encourage the BoE to end its highly accommodative monetary stance. However, in the short term, we see election concerns, specifically related to a possible hung parliament, dominating. In this regard, we expect volatility to remain elevated leading up to the election.

AUD: We remain bearish on the AUD

We remain bearish on the AUD over a 12-month horizon. We believe further monetary policy easing and weakening commodity prices remain major headwinds. We believe the RBA is likely to further cut rates as low commodity prices are likely to keep economic activity depressed and unemployment high. Recent statements from the RBA governor, regarding the elevated level of the AUD, further support our negative outlook on the AUD. Hence, we see the recent rebound as an opportunity to reduce exposure.

NZD: We turn Neutral on the NZD (from bearish earlier)

We turn Neutral on the NZD (from bearish earlier). Since our 2015 annual outlook, economic fundamentals in New Zealand have improved to some degree. Dairy prices have increased markedly, albeit from a low base, while housing sales and prices continue to edge higher (see adjacent chart). On the negative side, however, Q1 inflation has fallen to almost zero. On balance, we believe risks of a policy change in New Zealand are more balanced than before. Hence, we believe a majority of the negatives may have been priced into the currency.

SGD: We remain modestly bearish on the SGD

We expect further weakness over the medium term. Although the MAS maintained its current monetary stance, we believe economic data so far is not convincing enough to warrant a change in outlook. Hence, we continue to expect further policy easing in 2015. Housing prices continue to fall from elevated levels, while industrial activity remains soft. Inflation also remains low.

Other Asia ex-Japan: We remain medium-term Neutral

We remain Neutral on the region but continue to favour the CNY and INR over other currencies on a relative basis and expect further weakness in the MYR. We remain neutral on the IDR, THB, PHP, KRW and TWD.

With respect to the CNY, we see authorities prioritising longer-term reform and increased adoption of the renminbi over using the currency to address economic weakness. Hence, we do not see the authorities weakening the CNY on a consistent basis. On the INR, we believe the high carry differential and a stronger balance of payment position will support the currency. We expect further modest downside in the MYR, which remains the most vulnerable currency to a Fed rate hike in the region. Furthermore, we do not expect prices of Malaysian commodities to pickup markedly in the medium term.

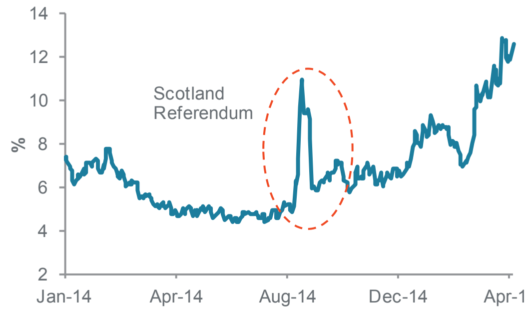
EUR: Interest rate differentials remain key to outlook

German-US 2-year interest rate differential and EUR/USD

Source: Bloomberg, Standard Chartered

GBP: Volatility in the GBP now significantly higher than Scotland referendum levels

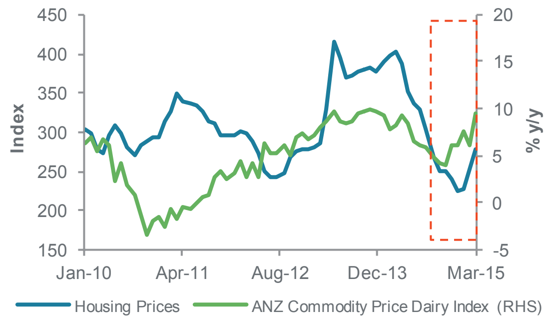
GBP 1m implied volatility



Source: Bloomberg, Standard Chartered

NZD: Housing and dairy prices are rebounding

RBNZ Commodity Price Index (Dairy) and REINZ Housing Price Index



Source: Bloomberg, Standard Chartered

SGD: Singapore inflation remains low as housing prices fall

Singapore Housing Price Index and CPI y/y

Source: Bloomberg, Standard Chartered

Disclosure Appendix

This document is not research material and it has not been prepared in accordance with legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. This document does not necessarily represent the views of every function within the Standard Chartered Bank, particularly those of the Global Research function.

Standard Chartered Bank is incorporated in England with limited liability by Royal Charter 1853 Reference Number ZC18. The Principal Office of the Company is situated in England at 1 Basinghall Avenue, London, EC2V 5DD Standard Chartered Bank is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority.

In Dubai International Financial Centre ("DIFC"), the attached material is circulated by Standard Chartered Bank DIFC on behalf of the product and/or Issuer. Standard Chartered Bank DIFC is regulated by the Dubai Financial Services Authority (DFSA) and is authorised to provide financial products and services to persons who meet the qualifying criteria of a Professional Client under the DFSA rules. The protection and compensation rights that may generally be available to retail customers in the DIFC or other jurisdictions will not be afforded to Professional Clients in the DIFC.

Banking activities may be carried out internationally by different Standard Chartered Bank branches, subsidiaries and affiliates (collectively "SCB") according to local regulatory requirements. With respect to any jurisdiction in which there is a SCB entity, this document is distributed in such jurisdiction by, and is attributable to, such local SCB entity. Recipients in any jurisdiction should contact the local SCB entity in relation to any matters arising from, or in connection with, this document. Not all products and services are provided by all SCB entities.

This document is being distributed for general information only and it does not constitute an offer, recommendation, solicitation to enter into any transaction or adopt any hedging, trading or investment strategy, in relation to any securities or other financial instruments. This document is for general evaluation only, it does not take into account the specific investment objectives, financial situation, particular needs of any particular person or class of persons and it has not been prepared for any particular person or class of persons.

Opinions, projections and estimates are solely those of SCB at the date of this document and subject to change without notice. Past performance is not indicative of future results and no representation or warranty is made regarding future performance. Any forecast contained herein as to likely future movements in rates or prices or likely future events or occurrences constitutes an opinion only and is not indicative of actual future movements in rates or prices or actual future events or occurrences (as the case may be).

This document has not and will not be registered as a prospectus in any jurisdiction and it is not authorised by any regulatory authority under any regulations.

SCB makes no representation or warranty of any kind, express, implied or statutory regarding, but not limited to, the accuracy of this document or the completeness of any information contained or referred to in this document. This document is distributed on the express understanding that, whilst the information in it is believed to be reliable, it has not been independently verified by us. SCB accepts no liability and will not be liable for any loss or damage arising directly or indirectly (including special, incidental or consequential loss or damage) from your use of this document, howsoever arising, and including any loss, damage or expense arising from, but not limited to, any defect, error, imperfection, fault, mistake or inaccuracy with this document, its contents or associated services, or due to any unavailability of the document or any part thereof or any contents.

SCB, and/or a connected company, may at any time, to the extent permitted by applicable law and/or regulation, be long or short any securities, currencies or financial instruments referred to on this document or have a material interest in any such securities or related investment, or may be the only market maker in relation to such investments, or provide, or have provided advice, investment banking or other services, to issuers of such investments. Accordingly, SCB, its affiliates and/or subsidiaries may have a conflict of interest that could affect the objectivity of this document.

This document must not be forwarded or otherwise made available to any other person without the express written consent of SCB.

THIS IS NOT A RESEARCH REPORT AND HAS NOT BEEN PRODUCED BY A RESEARCH UNIT.