Good buy, not goodbye?

- **While further short-term volatility remains possible, given EM risks and a potential US government shutdown, we believe this is a good opportunity to buy into our W.I.D.E.N. themes, such as global equities and diversified income assets.**
- **A 10%+ equity correction is now behind us, with seasonality turning supportive and traditional business cycle indicators suggesting the equity bull market has further to go. Our preferred regions (Euro area and Japan, FX-hedged) are significantly cheaper than a few months ago.**
- **The Fed may still hike rates later this year, but the Fed's comments and forecasts point to a benign rate environment. This should prove supportive for diversified income assets.**

Looking back…

The Fed left policy unchanged in September. The outcome created market volatility amid falling US yields. Concerns that EM data was weak enough to warrant a delay in rate hikes pulled markets lower.

Looking forward…

The risk of further dramatic pullbacks in equity markets has fallen. Global equity markets have corrected by over 10% over the summer. Pessimists have raised the spectre of a maturing cycle that could spell the end of the equity bull market. We disagree. Growth remains intact, inflation benign and monetary policies loose. Meanwhile, fund manager surveys show significant cash waiting on the sidelines, and seasonality is beginning to turn in favour of equity markets. (*See page 7*)

Asian equities await a catalyst from China While further policy easing in China is probable, equity markets in China are likely looking for fairly aggressive efforts to turn the tide against the recent weakness.

An increasingly benign interest rate outlook favours diversified income assets. Europe remains our preferred region within high-dividend equities. US High Yield (HY) and EM USD sovereigns remain our preferred bond asset classes. (*See pages 3 and 12*)

Favour USD and GBP amid China, commodities and US government shutdown risks. The USD may face a short-term challenge by the Fed delay. However, EM (including Asian) currencies could remain under pressure. Still-soft Chinese data, and the possibility any policy easing is mild, remain a risk particularly to the broader Asia ex-Japan region. Further weakness in commodity prices is another risk that could intensify pain in EM equity and currency markets. Finally, the possibility of another US government shutdown could dent sentiment. (*See pages 4 and 10*)

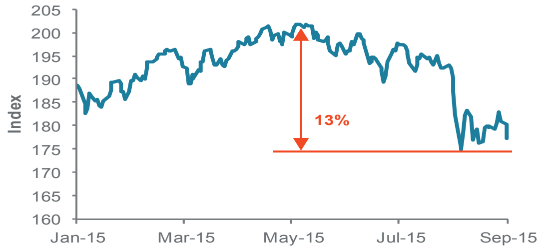
Contents

Asset classes or strategies where we would add exposure today
Diversified income assets
Global high-quality equities
Euro area equities (currency-hedged)
Japan equities (currency-hedged)
Indian equities
Global banks
US High Yield bonds
Emerging Market Investment Grade Sovereign Bonds (USD-denominated)
Senior loans
Selling equity volatility to generate income

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	*Director, Portfolio Solutions*
Victor Teo, CFA	*Investment Strategist*
Tariq Ali, CFA	*Investment Strategist*
Abhilash Narayan	*Investment Strategist*

A 10%+ global equities correction is now behind us

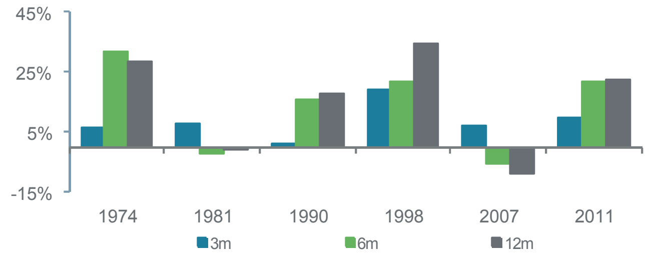
MSCI AC World Index



Source: Bloomberg, Standard Chartered

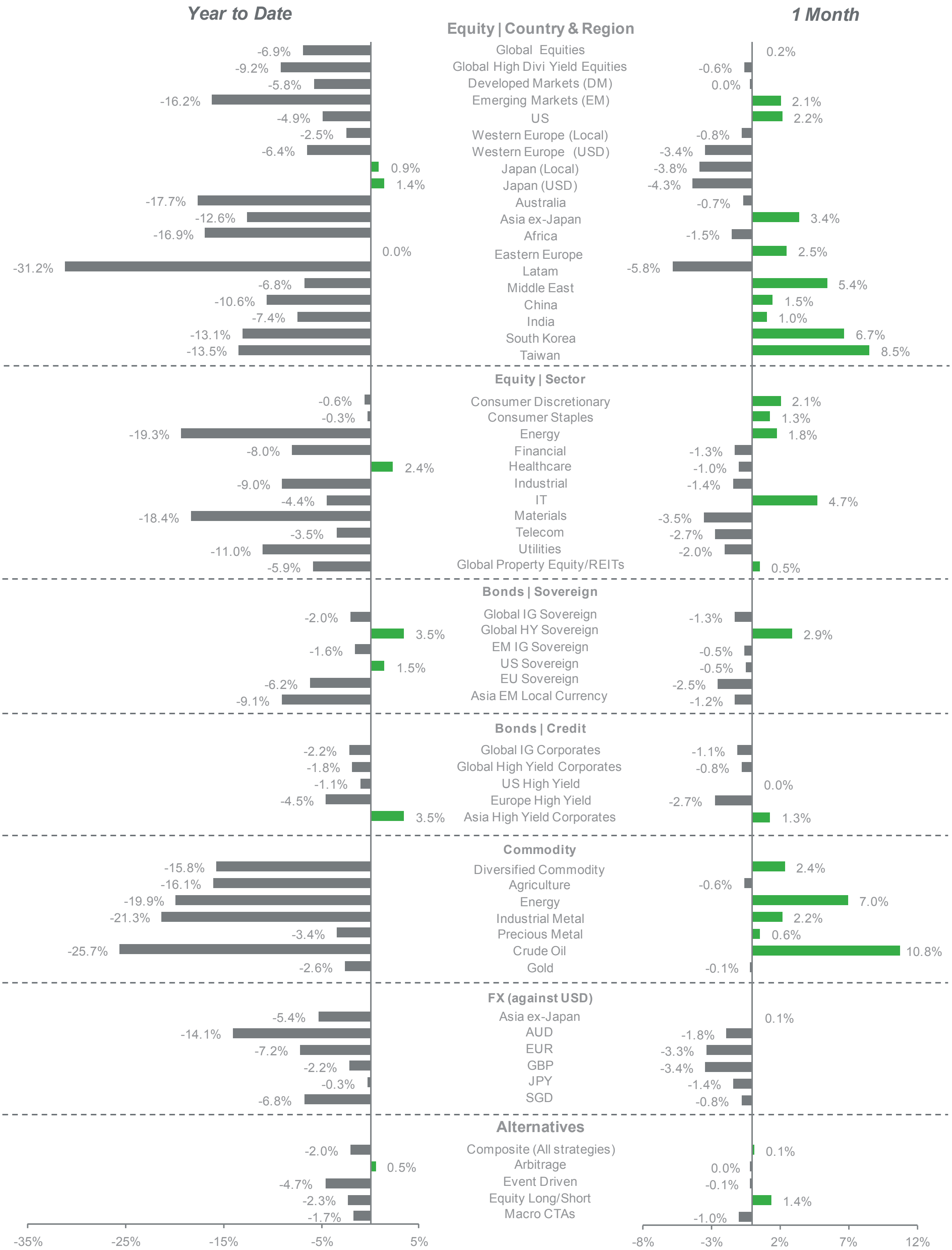
Historically, equities have performed well after a 10%+ pullback

Historical MSCI World returns following previous 10%+ pullbacks



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 24 September 2015 and 1-month performance from 24 August to 24 September 2015*

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

Investment Strategy

- **The Fed's decision to leave policy unchanged extends uncertainty, posing the risk of further short-term volatility. However, equity markets' greater-than-10% pullback over the summer means the 6-12 month outlook is much more positive.**
- **Diversified income assets, though, should benefit from an increasingly benign rate outlook. We would use the recent pullback as an opportunity to add exposure.**
- **EM currencies (including Asian currencies) may remain under pressure given China growth and commodity price concerns.**

Uncertainty in the US and China potentially extends uncertainty, but we would not be excessively concerned. A Fed rate hike may still be imminent and the risks of a US government shutdown are rising. However, the fact that global equities have corrected over 13% peak-to-trough during the summer makes us less concerned. We are also entering a seasonally supportive period for equities.

Diversified income assets supported by increasingly sanguine interest rate outlook. Regardless of when the Fed starts raising rates, its stance points to a contained rise in interest rates. Our view that (a) this environment is supportive for income assets and (b) many income assets are now cheaper than they were a few months ago suggest current markets offer an attractive opportunity to add exposure.

- Within bonds, we maintain our preference for EM USD sovereign bonds and US High Yield (HY) bonds. The latter has been disproportionately impacted by concerns of higher defaults in the energy sector, which we believe are not fully justified. Both have cheapened significantly over the past few months; we believe this is an opportunity to start adding.
- An increasingly benign interest rate outlook is supportive for global high-dividend stocks. We prefer European high-dividend stocks as the ECB is likely to remain more supportive than the Fed.

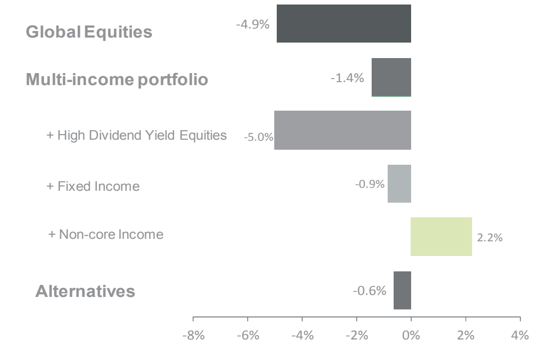
Please see page 12 for more details on diversified income assets, one of our key W.I.D.E.N. themes.

Implications for investors:

- **Maintain long-term focus on Euro area and Japan equities (FX-hedged).** We would keep FX-hedges in place for now. In Asia, we remain constructive China H-shares on a 12 month horizon, though a catalyst is likely needed to unlock performance.
- **Take advantage of the sanguine rate environment via diversified income assets.** A benign rate outlook is supportive.
- **Maintain preference for USD and GBP.** These offer attractive alternatives to EM currencies (including Asian currencies), in our view, which may remain under pressure from Chinese growth concerns and weak commodity prices.

Alternatives and diversified income have helped provide a buffer through summer volatility

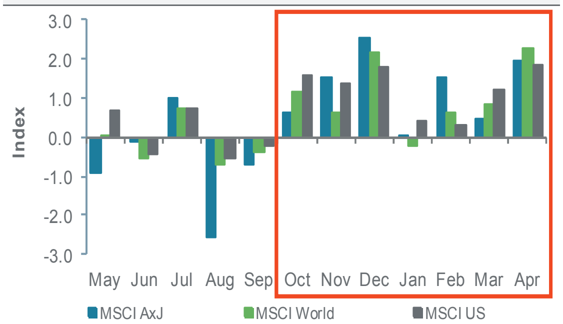
*W.I.D.E.N. performance since Outlook 2015 publication**



** For the period 12 December 2014 to 24 September 2015*
Source: Bloomberg, Standard Chartered
** Income basket is as described in the Outlook 2015: A Year to W.I.D.E.N. Investment Horizons, Figure 60*

We are entering a seasonally supportive period for global equity markets

Average USD returns since 1995 (m/m)



Source: Bloomberg, Standard Chartered

Asian currencies may weaken despite a stable Fed

Dollar Index and Asia Dollar Index

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	OW	Aug-15
	EM HY	N	Dec-14
Equity	US	N	Feb-15
	Euro area	OW*	Jul-13
	UK	UW	Aug-15
	Japan	OW*	Nov-14
	Asia ex-Japan	N	Jul-15
	Other EM	UW	Aug-12
Commodities		UW	Dec-14
Alternatives		OW	Jun-13

**Currency-hedged*

Economic and policy outlook

The Fed delayed a rate hike in September, citing uncertainty in Emerging Markets (EM). However, the strong job market sustains the case for a Fed rate hike by year-end. Low inflation in the Euro area and Japan points to a prolonged period of loose monetary policies. China slowed further, hurting EM growth. This raises the prospects for policy easing globally, with the exception of the US.

- **Robust US job market sustains the case for a Fed hike in 2015**. The Fed cited external risks in delaying a rate hike in September. However, the fall in US unemployment to a seven-year low and the ongoing consumer-driven recovery since Q1's slowdown sustain the case for a Fed rate hike this year, in our view. Subsequent rate increases are likely to be gradual, given the subdued inflation outlook.
- **Low Euro area inflation, EM concerns imply prolonged ECB easing**. Euro area consumer prices rose just 0.1% in August from a year earlier. Although H1 growth accelerated, falling commodity prices and continued weakness in EMs suggest Euro area inflation is likely to stay well below the ECB's 2% target. This points to a prolonged period of extremely loose monetary policies.
- **Japan likely to return to growth in H2, but subdued inflation may lead to further BoJ easing**. After a contraction in Q2, growth is likely to recover in H2 owing to a pick-up in business investment. However, weak external and domestic demand and low energy prices are likely to keep inflation below the BoJ's target, raising the chances of further monetary easing by early next year.
- **China's continued slowdown points to more policy easing**. China's manufacturing and exports continued to contract, while the relatively healthier services sector slowed. We expect continued monetary and fiscal policy easing to stabilise growth close to 7%.
- **EMs hurt by China**. China's slowing growth has hurt EMs through exports. EM accounts for 40% of the global economy, making its economic stabilisation critical for sustaining the ongoing expansion.

US: Strong job market sustains prospects for a Fed hike in 2015

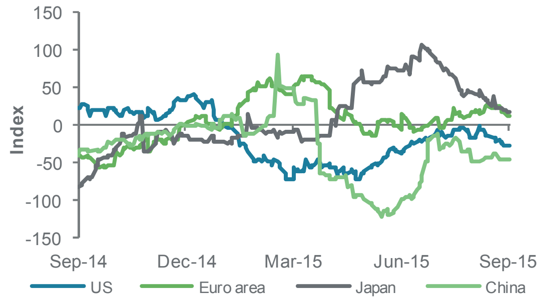
- **Unemployment rate within Fed's target**. Strong job creation has cut the US unemployment rate to a seven-year low of 5.1%, falling within the Fed's target range. Record-high job vacancies suggest hiring is likely to continue at a robust pace for the rest of the year.
- **Muted wage growth**. US wages remained subdued, partly due to a slack reflected in the US underemployment rate, which counts part-time workers who want to work full time and, at 10.3%, remains more than 2ppt above the 2007 levels.
- **Consumer-driven recovery**. Strong job creation, primarily in the services sector is driving sales of big-ticket items such as homes and cars. This is helping offset weakness in manufacturing, which has been hurt by the strong USD and a slumping energy sector.
- **Fed still in line to hike rates this year**. The Fed cited uncertainty in EMs, the strong USD and subdued inflation in delaying a rate hike in September. However, the strong US job market has helped the Fed meet a key mandate (supporting employment). This should allow the Fed to hike rates by year-end, assuming no government shutdown. The subsequent tightening is likely to be gradual.

Euro area: External risks, low inflation point to extended ECB easing

- **Growth accelerates**. Euro area growth accelerated to 1.5% y/y in Q2 on expanding manufacturing, services and exports. This has helped reduce the unemployment rate to a three-year low of 10.9%. Business confidence indicators suggest continued expansion despite the uncertainty from EMs and the unfolding influx of refugees.

Japan and Euro area economic data continue to surprise positively, while China and US data have rolled over

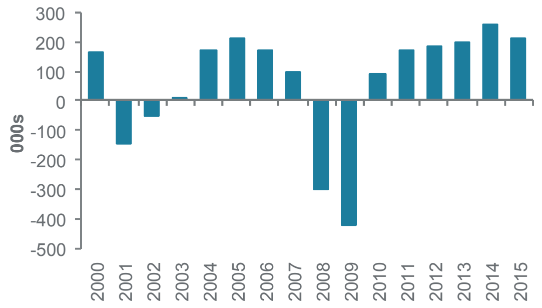
Citigroup economic surprises index for major economies



Source: Citigroup, Bloomberg, Standard Chartered

US average monthly job creation this year has been the second highest since 2000

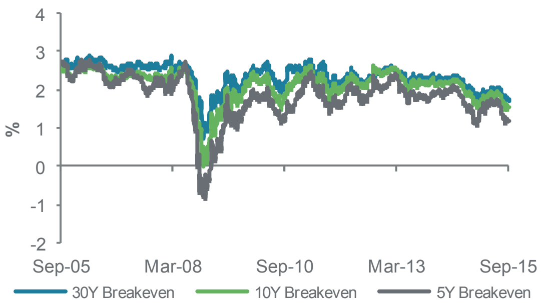
US average monthly net non-farm payrolls ('000s)



Source: Bloomberg, Standard Chartered

US inflation expectations have fallen close to their lowest level since 2009

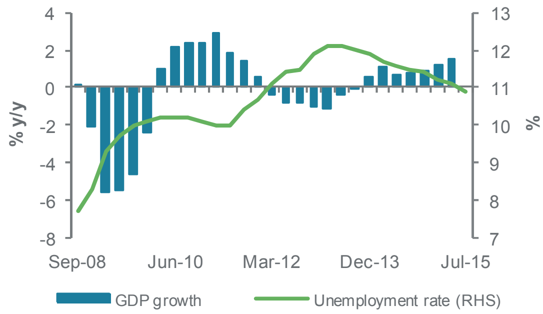
US 5-year, 10-year and 30-year inflation expectations based on inflation-protected US Treasury bonds (%)



Source: Bloomberg, Standard Chartered

Euro area growth continues to accelerate, helping lower the unemployment rate to a three-year low

Euro area quarterly GDP growth (%, y/y); Unemployment rate (%)



Source: Bloomberg, Standard Chartered

- **EM risks hurt investor confidence**. Investor expectations for Euro area growth (ZEW survey) slumped to its lowest this year amid concerns about the impact on the region from weakness in China and other EMs. Exports have been a key driver of the Euro area's recovery, helping lift its trade surplus to a record high.
- **External risks, low inflation imply prolonged ECB easing**. While the weak EUR, record-low borrowing costs and low energy prices are supportive for continued Euro area expansion, ECB officials have cited external risks and subdued inflation (0.1% in August) as reasons to consider more stimulus. We expect the ECB to continue with its bond buying into Q3 16, with chances of further extension.

UK: Tightening labour market builds a case for a BoE hike in 2016

- **Falling unemployment drives wage growth to a six-year high**. The unemployment rate fell to 5.5%, the lowest level since 2008, driving wages excluding bonuses by 2.9%, the fastest pace since 2009. With inflation almost non-existent, real wages rose at their fastest pace since 2002, helping drive consumption.
- **BoE closer to a rate hike decision**. BoE officials expect inflation to rise sharply by year-end as the impact of lower oil prices and the strong GBP fade. However, policymakers are also focused on external risks, especially from China, and their likely impact on growth and inflation, which suggests that any rate decision will be data-dependent.

Japan: Growth rebounding, but soft prices add pressure on BoJ

- **Recovery expected in H2**. A pick-up in business investment is likely to help the economy return to growth in H2 after a brief contraction in Q2. The weaker JPY is aiding exports and corporate profits, despite the headwind from China and other EMs, while low energy and commodity costs are positive. However, a slowdown in machinery orders likely indicates the impact of slowing EM growth.
- **Low inflation, external headwinds increase pressure on BoJ**. Japan's consumer inflation in August came in at 0.2% y/y, while producer prices are falling at the fastest pace since 2009. BoJ Governor Kuroda expects inflation to recover towards the BoJ's 2% target by 2016 as the impact of low energy prices fade. However, the weakness in China and EMs are adding disinflationary pressures, increasing the chance of further BoJ easing by early next year.

China: Continued weakness points to more policy easing

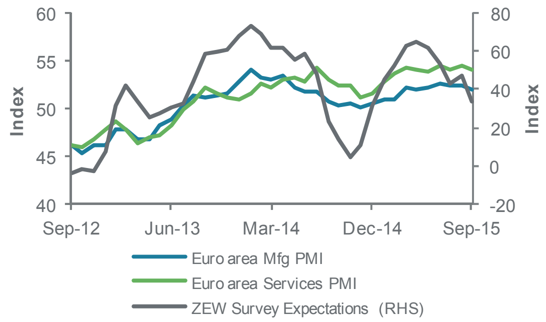
- **Slowdown continues**. A private manufacturing sector index fell to a six-year low, indicating contraction in the sector for the seventh straight month. Meanwhile, exports contracted for the sixth straight month, and fixed asset investment continued to slow. The healthier services sector also slowed, although retail sales growth stabilised.
- **More stimulus expected**. The continued weakness in growth data and deepening deflation in producer prices has raised the prospect for more stimulus. We expect further cuts in bank reserve requirements to enable more lending and increased pace of fiscal spending to nudge growth back towards the 7% target. However, rate cuts may be limited given the pickup in consumer inflation.

Other EMs: India's growth picks up; inflation likely to follow

- **Growth accelerates in Q2.** India's growth, using the central bank's preferred measure, accelerated to 7.1% in the April-June quarter, up from 6.1% in the previous quarter. The RBI expects inflation to recover towards its 6% target by January, from 3.7% in August, as base effects fade. This is likely to make it difficult for the RBI to cut rates in the near term, although we still expect rates to fall long term.
- **Exports slump across Asia.** South Korea, Taiwan and Southeast Asia continued to report export contraction in August. A recovery is likely to depend on the scale of policy stimulus implemented by China.

Euro area business confidence data indicate continued expansion, but investor expectations have weakened

Euro area Manufacturing and Services PMI; ZEW Survey Expectation



Source: Bloomberg, Standard Chartered

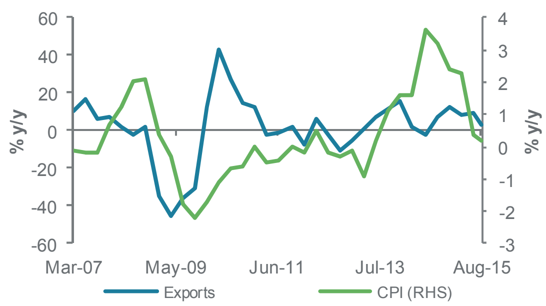
UK's wage growth accelerated to a six-year high as the unemployment rate fell to 2008 levels

UK unemployment rate (%); UK three-month average wage growth, excluding bonus (%, y/y)

Source: Bloomberg, Standard Chartered

Japan's export growth slowed amid weak demand from EMs, while inflation continued to decline

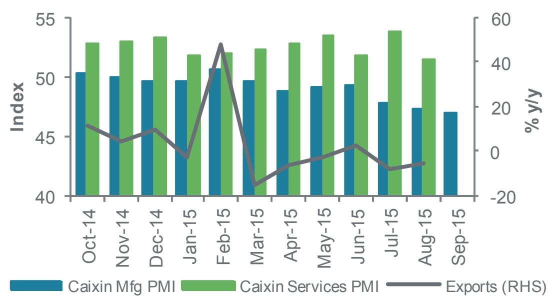
Japan's export growth (%, y/y); CPI (%, y/y)



Source: Bloomberg, Standard Chartered

China's manufacturing sector and exports continued to contract, while the services sector slowed

China's Caixin Manufacturing and Services PMIs; export growth (%, y/y)



Source: Bloomberg, Standard Chartered

Bonds – Underweight

- **US High Yield (HY) and USD Emerging Market (EM) sovereign bonds remain our preferred bond asset classes as valuations remain attractive. Currency weakness hurt INR bonds, but high yields maintain their long-term attractiveness.**
- **Lower Fed interest rate expectations are likely to help yields stay benign. We still prefer five-year average maturity profiles across USD bond allocations.**

G3 and EM (USD) sovereign bonds

- **Lower for longer.** The Fed decided to stay on hold and lowered its interest rates expectations for 2016 and 2017. This is consistent with the view that long-term yields are likely to stay benign for the foreseeable future even if a Fed rate hike is still on the table for later this year.
- That said, we remain cognisant of the risk that short-term yields may still rise relatively rapidly once the Fed does lift-off. Hence, we continue to prefer moderate maturity profiles (averaging around five years) across USD bond allocations (both government and corporate bonds).
- **Within sovereign bonds, we prefer EM sovereign bonds, with a tilt towards the investment grade (IG) component.** EM IG bonds underperformed recently owing to concerns about slowing growth in China, the potential impact of a Fed hike on EM and Brazil's downgrade. While we acknowledge credit quality may not be improving further in aggregate, we believe markets have priced in a lot of bad news and valuations are inexpensive.
- We remain selective on EM HY (USD) sovereign bonds. While they have performed well recently, much of this has been due to one-off factors, such as the prospect of a deal with creditors in Ukraine.

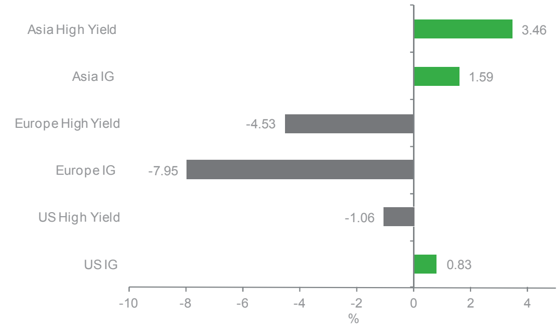
Corporate credit (USD)

- **US HY bonds offer attractive exposure to US corporates.** US HY bonds have performed well since we turned Overweight last month despite volatility elsewhere.
- We continue to believe the asset class offers value at current prices. While credit quality has undoubtedly started to deteriorate, much of the stress remains concentrated in the energy sector, where markets are pricing in a very high default rate of around 10%, according to some estimates. While defaults are rising, Fitch Ratings notes that magnitudes of the scale of 5% appear more likely, suggesting wide spreads (both within the energy sector and elsewhere) may not be fully justified. We continue to believe cheaper valuations and a tailwind from the strong US economy mean that US HY offers an attractive risk/reward trade-off.

Asian local currency bonds

- **A difficult month for Asian local currency bonds**. Currency weakness was the main driver hurting performance across the region. INR bonds, our preferred region, were also hit as the INR depreciated due to concerns about the possible fallout from a Fed rate hike.
- **We would stay the course on INR bonds, our preferred region.** The government has been successful in keeping a lid on inflation, with consumer price inflation being much lower than RBI's target. This suggests rate cuts remain likely. We also continue to expect INR weakness to remain contained as it outperforms other Asian and EM currencies. Most importantly, absolute yields remain fairly high, providing an attractive environment to patiently collect yield as rate-cut factors play out. Hence, we continue to prefer INR bonds within the Asian local currency bond space.

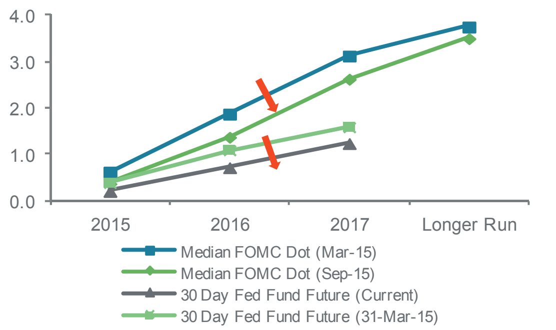
Performance of fixed income YTD* (USD)



** For the period 31 December 2014 to 24 Sep 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

The Fed's interest rate expectations have moved lower, in line with market expectations

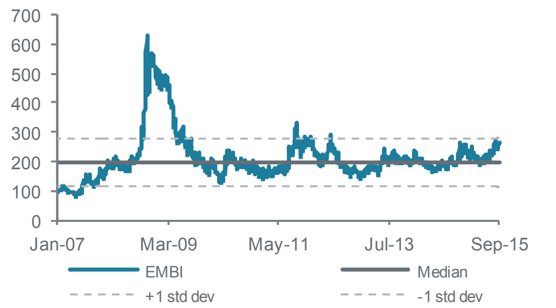
Median Fed fund rate projection and interest rates implied by 30-day Fed fund futures



Source: Bloomberg, Standard Chartered

EM government bond valuations are inexpensive relative to history

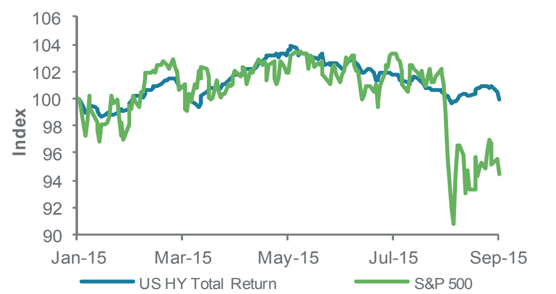
EM sovereign bond spreads



Source: Barclays, Bloomberg, Standard Chartered

US HY bonds could provide better risk-adjusted returns than US Equities

US HY Total Returns and S&P 500 index, normalised to 100 as of end-2014



Source: Bloomberg, Standard Chartered

Equity – Overweight

- We believe the 10% peak-to-trough correction in global equity markets has opened a window of opportunity for investors, particularly those who missed the rally from October 2014 lows.
- Our preferred markets include the Euro area and Japan on a FX-hedged basis. We remain positive on the US and Asia ex-Japan on a 12 month basis although we note there remains uncertainty for the latter in the short term. We are cautious on other Emerging Markets (EM).
- The drop in markets globally has lowered valuations. This removes the 'waiting for a lower entry point' as a reason for investors to wait on the sidelines. On average, market PEs have declined by one point. (See chart on the right).
- We believe the Fed has delayed the decision to raise rates as opposed to changing its outlook. The Euro area and Japan look set to increase/extend their QE programmes, which is positive for asset prices and negative for exchange rates in these markets.
- Growth in China continues to slow and policy makers have announced a series of modest reform measures over the past month to address this. However, more is required to reverse the tightening in financial conditions due to capital outflows.

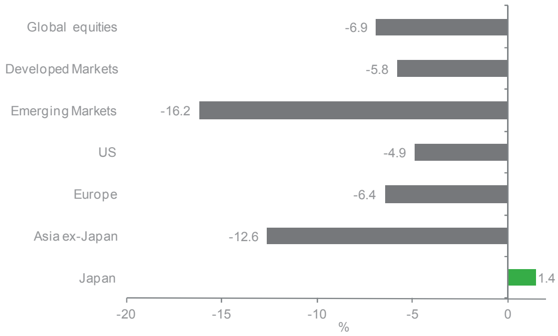
US – Market re-set is an opportunity

- High valuations have often been cited as a reason for caution towards US equity markets by investors. On the day before the recent market correction, 16 August, the S&P500 was trading on a PE multiple of 16.8x 12m forward earnings estimate. However, since then valuations have dropped by a full point to 15.8x. This represents an attractive entry point to the market, in our view. When valuations dropped to similar levels in October 2014, the index return in the following six months was 12%.
- The decision of the Fed not to raise interest rates merely delays, as opposed to changes, the trajectory of US interest rates. Our central scenario is for a rate hike by year-end, followed by further two rate hikes in 2016. Given the benign outlook for inflation, this is a positive backdrop for equity markets as it signals a modest tightening pace.
- An alternative scenario is 'one and done'. This centres on one rate rise by the Fed, with the window for rate hikes closing thereafter. Such a scenario could be accompanied by a flattening of the yield curve and rising expectations of a growth slowdown. This is not our base case, but it would be challenging for equity markets if it was caused by growth concerns rather than benign inflation.

Euro area and Japan – More QE ahead

- We remain bullish on equities in the Euro area and Japan on a currency-hedged basis and note similarities with the US market. The recent period of weakness represents a good opportunity to increase exposure.
- There are building expectations that both the ECB and the BoJ will extend/increase QE, respectively, in light of the persistently low levels of inflation.
- QE has been an important indirect driver of equity returns in both these markets, primarily via its impact on exchange rates, which has led to translation gains for exporters when overseas profits are repatriated.
- The ECB chief economist has signalled the ECB's monthly EUR 60bn asset purchase programme could be extended as the Governing Council has the necessary flexibility to alter the 'size, composition and length of the programme'.

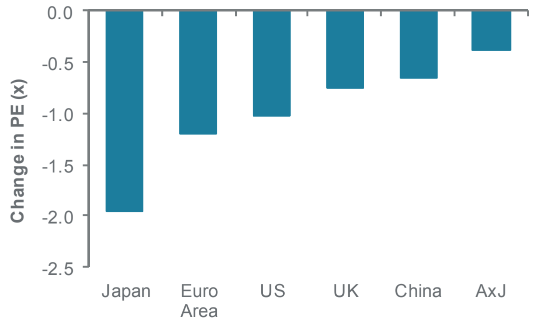
Performance of equity markets YTD* (USD)



** For the period 31 December 2014 to 24 September 2015*
Source: Bloomberg, Standard Chartered. MSCI Indices are USD total return

Valuations have dropped from the August high

Drop in PE ratio across key global markets from the 17 August high



Source: FactSet, Standard Chartered

S&P500 valuations have declined

S&P500 PE trend

Source: FactSet , Standard Chartered

- In Japan, there is a growing consensus that the recent rise in the JPY and the persistent low level of inflation gives the BoJ the reason it needs to increase its pace of asset purchases. An advisor to Prime Minister Shinzo Abe has signalled that the BoJ should consider additional easing if the JPY 'rises sharply'.
- An increase in QE in the Euro area and Japan could lead to a weaker EUR and JPY, which should be positive for equities.

China – Micro easing announcements

- China has announced a series of policy easing and reform measures over the past month. However, these have failed to reverse the negative sentiment towards equity markets. Measures announced include
  1. Liberalisation of rules governing overseas borrowing for companies
  2. Easing of rules on foreigner purchase of property
  3. Changing rules for calculating of bank reserves
  4. Introduction of 'mixed ownership' in the SOE sector
  5. Acceleration of privatisation in the SOE sector
- We remain positive towards the China market, believing we will see further easing measures. Nevertheless, we note that policy makers need to take action, such as cutting the reserve requirement ratio, just to offset the negative effect of capital outflows on domestic liquidity conditions. To actually ease policy, they will need to double-up on these easing efforts.

Asia ex-Japan – A drop in yields is an opportunity to re-balance

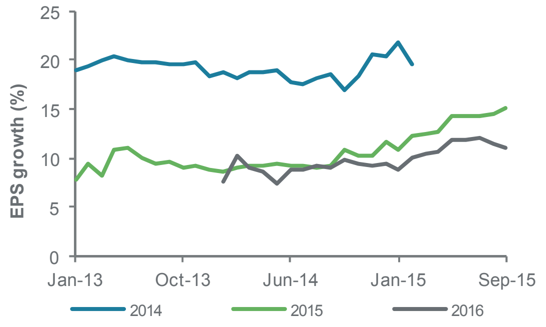
- We are positive on equity markets in Asia ex-Japan, with a preference for India and China, noting that the former has more catalysts for a re-rating in the short term. The possibility remains that current heightened levels of risk aversion last longer than we anticipate and as such it may be prudent to focus on re-balancing as opposed to increasing exposure.
- The decision by the Fed to delay raising interest rates creates a window of opportunity in Asia, in our view, to re-position portfolios.
- Investors with significant exposure to interest rate sensitive stocks, particularly those in the real estate investment trust (REIT) sector, could use the drop in bond yields and rally in the sector as an opportunity to sell into strength and build exposure in less rate-sensitive sectors including banks, which are beneficiaries of rising interest rates via higher net interest margins (NIM).
- Some of the worst performing markets in Asia including Korea, Malaysia and Indonesia have witnessed an improvement in their performance over the past month. For Korea, the uptick may be linked to increasing optimism of easing measures from China. If these measures materialise it will validate the uptick in performance. However, to date policy makers have been slow to take action, hence we remain cautious on the outlook for Korea.
- The outlook for the USD is of prime importance for Asian markets and foreign fund flows. USD strength against Asian currencies tends to result in capital outflows from the region. Looking ahead, we believe a strong USD will remain, which implies continued fund outflows, and this could lead to Asian market performance to lag behind their Developed Market (DM) peers.

Conclusion

The correction in equity markets has lowered valuations. We suggest investors use this as an opportunity to add to positions in our high-conviction markets, including the Euro area and Japan, on a currency-hedged basis. China has implemented some easing measures but more needs to be done to unlock the value in the market.

Japanese earnings trend

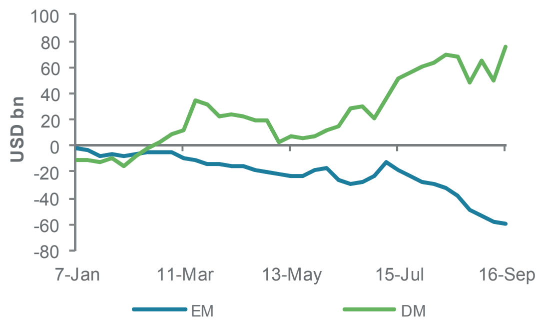
MSCI Japan earnings forecast have consistently trended higher



Source: FactSet, Standard Chartered

2015 equity flows have been positive for DM, negative for EM

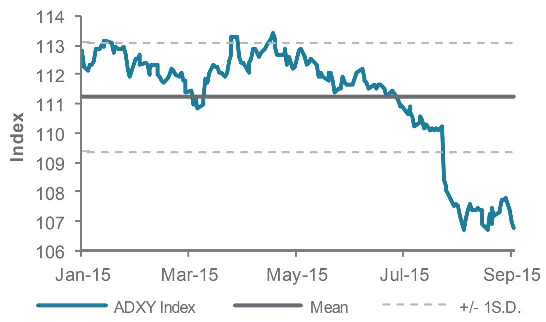
YTD monthly foreign portfolio flows



Source: EPFR, Standard Chartered

Asian currencies have slumped YTD due to a strong USD

Index of Asian currencies against the USD



Source: Bloomberg, Standard Chartered

Standard Chartered

Commodities – Underweight

- We expect oil prices to remain capped near term amid a supply-demand imbalance
- We expect gold to see further downside as the Fed hikes interest rates and demand remains poor

We remain Underweight commodities. The demand-supply imbalance, coupled with weak growth, particularly in Emerging Markets (EM), is likely to continue weighing on prices. We see little evidence that this scenario has begun to change.

Oil prices likely to stay capped. We continue to expect oil prices to remain under pressure in the short term amid persistence of excess supply. In our view, any rebound is likely to be capped at USD 60/bbl-USD 65/bbl. We believe fundamentals, both from a demand and supply perspective, continue to favour a further fall in prices. On the supply side, while oil inventories in the US have fallen from their peak levels, these remain considerably elevated relative to history. Similarly, non-OPEC and OPEC oil production still do not show any signs of slowing meaningfully. In our view, this adjustment towards more normal levels of supply remains a multi-year process.

Meanwhile, on the demand side, the global growth picture remains precarious. The structural slowdown in EMs, which had been key to new oil demand creation, is likely to persist. In the Developed Markets (DM), a pickup in growth has also been rather lacklustre, while risks of a further slowdown remain.

Gold remains in a firm downtrend. We believe the recent support to gold amid heightened volatility and safe-haven demand may have ended for now. The demand-supply imbalance also augurs for lower prices. The physical surplus continues to widen while demand growth remains downbeat.

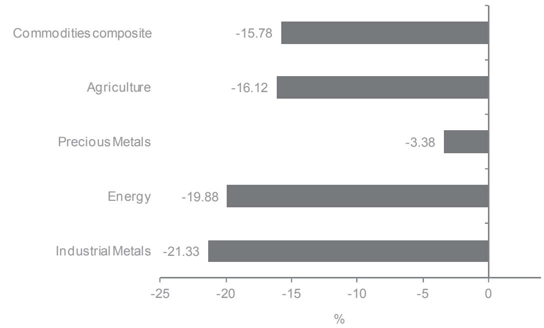
From a macroeconomic perspective, long-term fundamentals remain poor for gold. In our view, the broad USD and interest rates (net of inflation) are the key drivers for gold. As inflation is still extremely low globally and the Fed is expected to hike interest rates, all indicators continue to point to further downside ahead. To turn more constructive, we would need to see price fall below long-term average production costs or long-term average inflation-adjusted prices. A range of estimates suggest both are at least 20% lower from here.

China pick-up key for base metals outlook. We believe the recent relief-rally in base metals has likely ended and see further downside over the medium term. In our view, the structural slowdown in China amid a largely oversupplied market remains the main driver of our negative view. We see the excess supply situation becoming increasingly worse in several cases, including in aluminium, nickel and zinc.

On the demand side, we see no evidence of a pickup in China. In our view, the recent pickup in China property transactions does not signal a broader revival in construction activity. We also continue to see any fiscal stimulus to be limited in scope and magnitude. More fundamentally, China's focus away from an investment- and export-dependent economy suggests demand will incrementally get softer over time.

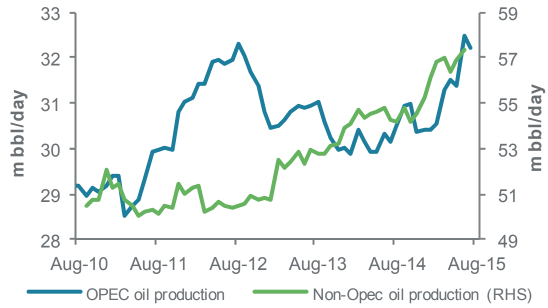
Strong El Nino not a case for an Agriculture commodity rally. The situation in several major agri-commodities remains in oversupply. Given elevated stock levels, we do not see the ongoing El Nino likely to result in a surge in prices over a 12-month horizon. In wheat, for example, world inventories are likely to touch all-time highs. In corn, current stock levels are at a 27-year level high. Similar situations exist in many other major soft commodities. Moreover, divergent impact on prices in the event of a strong El Nino weather phenomenon also argues against a broad upturn in agri-commodity prices.

Performance of commodities YTD* (USD)



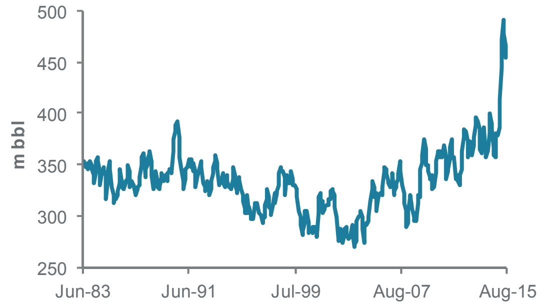
** For the period 31 December 2014 to 24 September 2015*
Source: DJUBS, Bloomberg, Standard Chartered
DJUBS, DJUBS Agri, DJUBS Precious metals, DJUBS Energy, DJUBS Industrial metals

Crude production shows few signs of falling to close the demand-supply gap
OPEC and non-OPEC daily crude production



Source: Bloomberg, Standard Chartered

Oil inventories in the US only slightly lower, still remain elevated relative to history
DOE total crude oil inventory



Source: Bloomberg, Standard Chartered

Gold price remains elevated, relative to inflation, despite significant falls thus far from the peak
Real (inflation-adjusted) price of gold

Source: Bloomberg, Standard Chartered

Alternative Strategies – Overweight

- Alternative strategies remain a preferred asset class. Policy divergence, clearer market trends and demand for protection against volatility remain key asset class drivers. We continue to favour equity long/short, macro/CTA and event-driven strategies.
- The asset class fell by only about 4.5% peak-to-trough over the summer relative to global equities' about 13% fall, suggesting the asset class is helping during periods of volatility. Macro strategies, however, have disappointed over the past month.

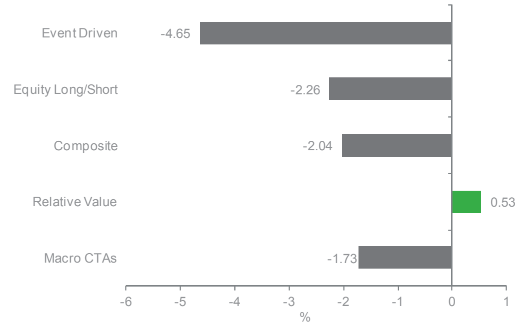
Alternative strategies helped reduce volatility over the summer. Over the summer, global equities fell by around 13% (21 May-25 August). Alternative strategies fell by only about 4.5% over the same period, suggesting it helped reduce volatility overall. Within this, however, there were some disappointments. Macro strategies, in particular, continued to weaken over the past month despite a stabilisation in both global equities and the USD.

Key drivers for alternative strategies remain in place. While delayed, an eventual Fed rate hike is ultimately likely to intensify policy divergence, particularly if other major central banks consider further policy easing. An extension of the spectacular run in global mergers and acquisitions volume are likely to eventually feed into total returns of event-driven strategies. Finally, equity long/short strategies remain a valuable sub-strategy, given the risk of further near-term volatility, as a delay in the potential date of a Fed rate hike extends the period of uncertainty.

Conclusion

Alternative strategies remains one of our most preferred asset classes. We favour diversified exposure. Within the asset class, we like equity long/short, event-driven and macro/CTA strategies.

Performance of alternative strategies YTD* (USD)



** For the period 31 December 2014 to 24 September 2015*
Source: HFRX, Bloomberg, Standard Chartered
HFRX global hedge, HFRX equity hedge, HFRX event driven, HFRX relative value, HFRX macro/CTA

Short term

refers to a horizon of less than 3 months

Medium term

refers to a time horizon of 6 to12 months

Foreign Exchange

- We expect further USD and GBP strength against other major and Asia ex-Japan currencies over the next 3-6 months.
- We turn bearish on Asia-ex-Japan currencies, but expect the INR and PHP to outperform and the SGD, MYR, KRW and TWD to underperform the group.

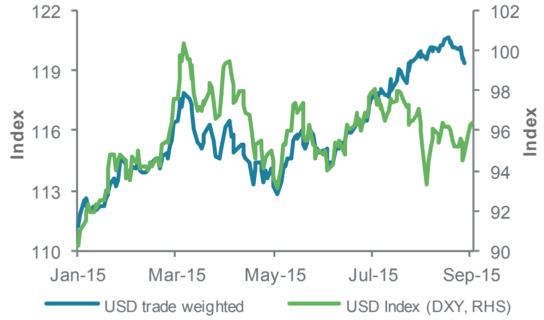
USD: Case for appreciation in place for now: We continue to expect the USD to strengthen, even if it faces short-term challenges from the Fed's rate hike delay, as we believe the broader case for a stronger USD remains intact. Monetary policy divergence remains critical to our view; higher US short-term rates, as the Fed hikes while most other central banks, both in Developed Markets (DM) and Emerging Markets (EM), maintain or add to existing stimulus. Furthermore, net-long speculator USD positioning, relative to G10 currencies, has eased considerably over the past few months.

While we acknowledge an increasingly benign US rate outlook is a risk to our USD view, on balance we believe the likely policy divergence between US rates and elsewhere will be significant enough to send the USD on its next leg higher.

EUR and JPY: We expect weakness to continue near term: We believe the recent strength in the EUR and JPY has been driven by shorter-term factors and is likely to reverse in the coming months. Repatriation of funds back to Europe and Japan, amid heightened risks in EM, may have supported the EUR and JPY, respectively. However, we believe, the respective central banks are unlikely to be tolerant of significant strength in their currencies. Speculation of additional policy easing is likely to increase, in our opinion.

Broader measures of the USD (trade weighted) show the USD still in an uptrend

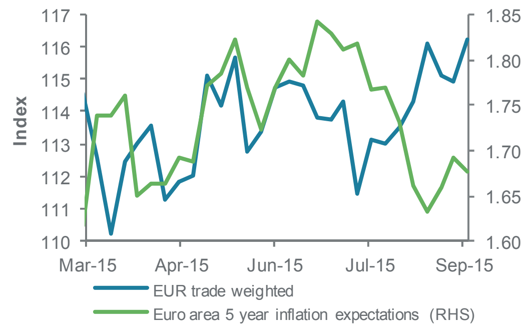
USD Trade-weighted Index and USD Index (DXY)



Source: Bloomberg, Standard Chartered

A pick-up in trade-weighted EUR amid declines in inflation expectations may concern policy makers

Euro area five-year inflation expectations and EUR trade-weighted exchange rate



Source: Bloomberg, Standard Chartered

GBP: We remain Neutral: We remain Neutral on the GBP versus the USD, but expect it to outperform G10 and Asia ex-Japan currencies. UK economic data continues to improve, particularly with respect to consumption, wage growth and core inflation, while foreign inflows remains supportive. Against this backdrop, we believe the BoE is likely to hike interest rates early next year, ahead of what markets currently expect. We believe any gains against the USD are likely to be limited (largely in line with consensus, which is looking for GBP-USD to be largely flat over the next 12 months). However, we do expect the GBP to outperform G10 and Asia ex-Japan currencies, where the case for further policy easing amid weak fundamentals continues to exist.

AUD: We expect further depreciation: We continue to expect further downside in the AUD. In our view, the currency is likely to adjust further to the prevailing domestic macroeconomic scenario while remaining vulnerable to further negative surprises from China. Since we do not see a rebound in commodity prices in the near term, we believe Australia's trade fundamentals are likely to remain weak. In addition, other leading indicators of growth, such as consumer and business confidence, signal further deceleration while the unemployment rate remains elevated near 2008 levels. In our view, the RBA is likely to opt for additional rate cuts, should the growth outlook continue to deteriorate.

NZD: We expect further depreciation: We turn bearish on the NZD from neutral previously. We believe the NZD remains elevated, with respect to history as well as economic fundamentals, despite the significant decline. We believe the significant and continuing deterioration in dairy prices will further weigh on growth. This is likely to prompt the RBNZ to further ease policy, beyond what we had initially expected.

SGD: We expect further weakness: We expect continued SGD weakness. Recent economic data in Singapore signals a slowing domestic economy, in our opinion. CPI inflation remains below zero while exports continue to decline. In addition to a stronger USD, we believe increasing possibility of further policy easing by the MAS may be a catalyst for further SGD weakness.

Other Asia ex-Japan: We expect further weakness. We turn bearish on Asia-ex-Japan currencies as a whole, from neutral earlier, amid elevated China risks and the Fed's likely move towards policy normalisation later this year. We believe most Asia-ex-Japan currencies are likely to extend downside, following the recent relief-rally. On a relative basis, we expect the INR and PHP to be outperformers, while the KRW, TWD, SGD, MYR are likely to underperform the group. We expect the CNH, THB and IDR to perform in line with their regional peers.

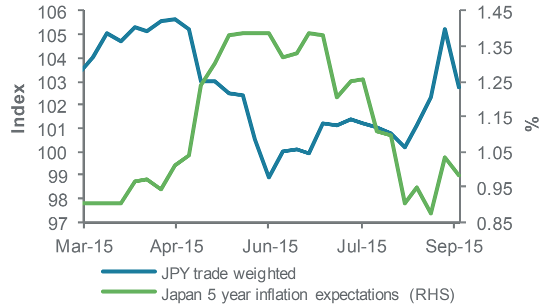
On the INR and PHP, we see their limited exposure to China risks and substantial FX reserves, relative to imports and short-term debt, as their main strengths. Conversely the KRW and TWD are the most exposed to China-related risks, in our opinion.

In case for the CNY, we believe the recent depreciation of the CNY was an attempt to move towards a more market-determined exchange rate policy, as opposed to a controlled depreciation to revive growth. Hence, any weakness in the CNY is likely to be in line with its regional peers.

The KRW and TWD also face the possibility of weaker domestic growth fundamentals, raising the risk of further interest rate cuts, which, in turn, may result in further currency weakness.

JPY trade-weighted exchange rate continues to appreciate even as inflation expectations fall

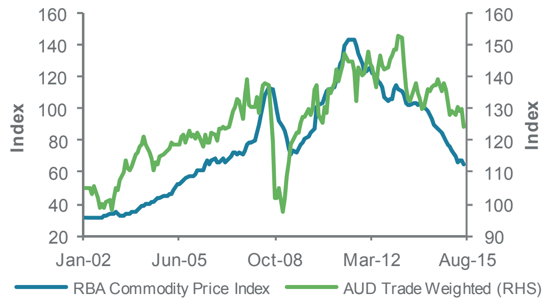
Japan five-year inflation expectations and JPY trade-weighted exchange rate



Source: Bloomberg, Standard Chartered

AUD still elevated relative to commodity sector fundamentals; further downside likely

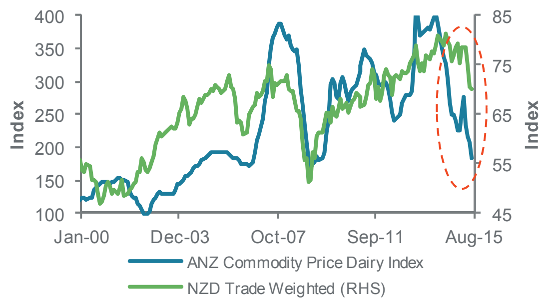
RBA commodity price index and AUD trade weighted



Source: Bloomberg, Standard Chartered

Despite substantial decline, NZD trade weighted remains elevated relative to a collapse in dairy price

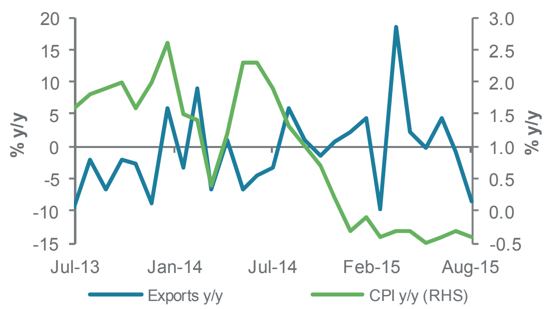
ANZ commodity dairy price index and NZD trade weighted



Source: Bloomberg, Standard Chartered

Singapore declining exports and low inflation signal economic weakness

Singapore CPI inflation and exports



Source: Bloomberg, Standard Chartered

Appendix

Overweight Calls

Asset Class
Equities
Alternatives

Equity Region
Europe
Japan

Fixed Income
EM IG
DM HY

Fixed Income LC
INR

FX 6-12mth views
USD
INR

Equity – Global Sector
Technology
Energy
Industrials
Discretionary
Financials
Materials

Asia Pac*
China
India

Equity – Regional Sector

	Financials	Energy	Technology	Industrials	Discretionary	Materials
US	✓	✓	✓	✓	✓	✓
Europe				✓	✓	
Asia	✓	✓	✓	✓	✓	
HK	✓		✓	✓	✓	
Singapore	✓			✓	✓	
China				✓	✓	

**Within our neutral Asia ex Japan view, we overweight India and China Equities*

Underweight Calls

Asset Class
Cash
Fixed Income
Commodities

Equity Region
Other EM
UK

Fixed Income
DM IG

Fixed Income LC
SGD
MYR
TWD

FX 6-12mth views
EUR, JPY, TWD, MYR, AUD, SGD, KRW

Equity – Global Sector
Utilities
Telecom

Asia Pac*
Singapore
Malaysia

Equity – Regional Sector

	Telecom	Utilities	Energy	Materials
US	✓	✓		
Europe			✓	✓
Asia	✓	✓		
HK	✓	✓		
Singapore	✓			
China			✓	✓

**Within our neutral Asia ex Japan view, we overweight India and China Equities*

Diversified Income Assets – Our view on income potential and capital growth

Asset Allocation (Multi-Asset Income)	Yield	Income Potential	Capital Growth	Comments
Fixed Sector Allocation		🟠	🟠	**Portfolio anchor; source of yield; some interesting areas but not without risks**
Corporate - HY	7.1	🟢	🟠	High yield premium discount rising defaults; attractive yield, value; biggest obstacle fund flows and Fed
EM Debt	6.0	🟢	🟠	Need to be selective, given diverse risk/reward in IG, HY bonds
EM - IG	5.0	🟠	🟢	Attractive yield premium for quality credit; EM IG sovereign bonds at 240bps over UST
EM - HY	8.2	🟢	🔴	Higher yield (310bps vs. EM IG), but many idiosyncratic stories; lower risk/reward
Asia local currency bonds	3.6	🔴	🔴	Broad risk/reward unattractive; yields are too low for the tail FX risks
CNY bonds	3.2	🟠	🟢	Room for lower inflation-adjusted rates; yields not that high, given CNY risks
INR bonds	7.9	🟢	🟢	Appealing structural story; high inflation-adjusted yields; strong central bank, reforms; foreign demand
Investment Grade	1.6	🔴	🔴	Portfolio anchor, safe yield, but few exciting areas
Corporate - IG	2.8	🔴	🟠	Yield premiums have widened; some value appearing, although overall yield still depressed
Sovereign	1.2	🔴	🔴	Momentum and QE offer strong anchors for EU, but little value; long USTs, AU/NZ better supported
Equity Regional Allocation	**4.0**	🟠	🟢	**Key source of income and upside capital growth**
North America	3.5	🟠	🟠	Fair valuations; subdued sales/profit growth mean below avg. returns; some sectors attractive
Japan	1.8	🔴	🟢	Attractive valuation; BoJ and FX support; not-so-stretched positioning. Low yields, but increasing dividends
Europe Ex UK	5.6	🟢	🟢	Attractive valuation; ECB and FX support; good momentum; risk of payout cuts and exposure to global growth
United Kingdom	4.4	🟢	🔴	High payouts and average valuations, but challenges from poor earnings, momentum & resources exposure
Asia Ex Japan	5.1	🟠	🔴	Good payouts; selectively attractive valuations, but challenges from growth, earnings, Fed and leverage
Emerging Markets	6.7	🟠	🔴	Good payouts; selectively attractive valuations, but challenges from growth, earnings, Fed and leverage
Non-core income	**4.3**	🟠	🟠	**Useful diversifier for income and growth**
Preferred	5.6	🟢	🟠	Positive on financials; benefits from higher rates; high sensitivity to flows
Convertibles	3.9	🟠	🟠	Attractive, given limited equity upside; risk/reward depends on actual bonds held
Property	4.3	🟠	🔴	Attractive yield diversifier; still-stable real estate market; at risk from higher rates and outflows
Covered Calls	4.3	🟠	🟠	Useful yield diversifier and enhancer; volatility has increased somewhat

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.