On track for a better Q4

- **Equities rebounded strongly over the past month and may be on track for a seventh consecutive year of Q4 gains.** Both fundamentals and technicals are now increasingly supportive. We favour adding to Euro area and Japan equities (FX-hedged).
- **Recent data points to a mid-cycle slowdown, in our view, but nothing worse.** The implications – supportive policy and contained bond yields – mean we would not delay adding to diversified income exposure.

Looking back…

Markets rebounded sharply over the past month. Diversified income assets, high yield and Asian currencies also rose. A reversal of bearish positions and high cash levels likely contributed to the moves.

Looking forward…

Growth and policy (by the Fed, ECB, BoJ and PBoC) remains supportive for our preferred asset classes. Unlike the pessimists, we see recent economic indicators as evidence of a mid-cycle slowdown, not signs of a possible recession. Euro area and Japanese policymakers are likely to stay very supportive. Fed governors continue to emphasise the data-dependent nature of policy decisions, but a bias to raise rates means the USD is likely to stay well-supported until the first rate hike, at least, though the outlook is less certain thereafter. *(See page 3)*

This is a positive outcome for diversified income assets. One key implication is that government bond yields are likely to remain well contained in the US, Europe and Japan. We see value in US corporate credit across high yield and, increasingly, investment grade. Low yields are also a support for high-dividend-yielding equities. *(See pages 6-8)*

Euro area, Japanese and US equities should continue to perform through Q4. This month's sharp equity market rebound suggests the tailwind from seasonality may help equity markets deliver positive Q4 returns for a seventh consecutive year. In addition, significant cash remains on the sidelines while valuations remain cheaper than in the Q1, despite the recent rebound. *(See page 7)*

Asian equities face similar seasonal support, with Q4 returns averaging 4% over the past 15 years. Chinese (H-share) and Indian markets have tended to be the strongest performers, having performed well in most Q4 periods in the past 15 years. *(See page 7)*

Policy events at the end of October are key milestones. The Bank of Japan is likely to decide on whether to stimulate further while a Fed update is due at its month-end meeting. China policymakers also meet to announce its next five-year plan. *(See page 4)*

Contents

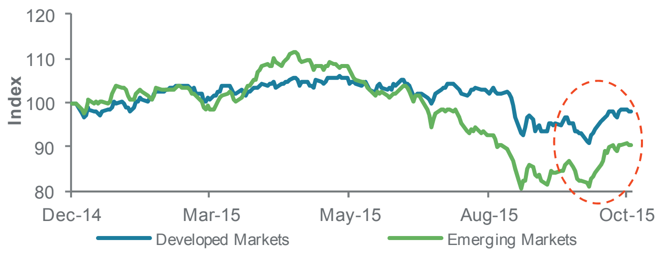
Asset classes or strategies where we would add exposure today

- 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*
Arun Kelshiker, CFA	*Exec. Director, Portfolio Solutions*
Audrey Goh, CFA	*Director, Portfolio Solutions*
Victor Teo, CFA	*Investment Strategist*
Tariq Ali, CFA	*Investment Strategist*
Abhilash Narayan	*Investment Strategist*

Equity markets rebounded sharply in October

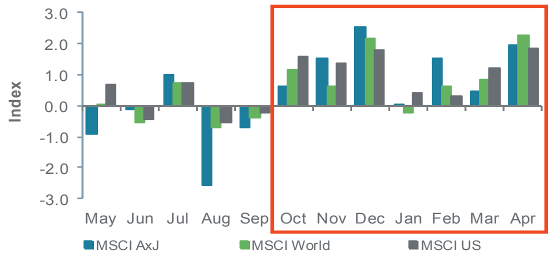
MSCI AC World, MSCI World, MSCI Asia ex-Japan Index



Source: Bloomberg, Standard Chartered

We have entered a seasonally positive period for equities

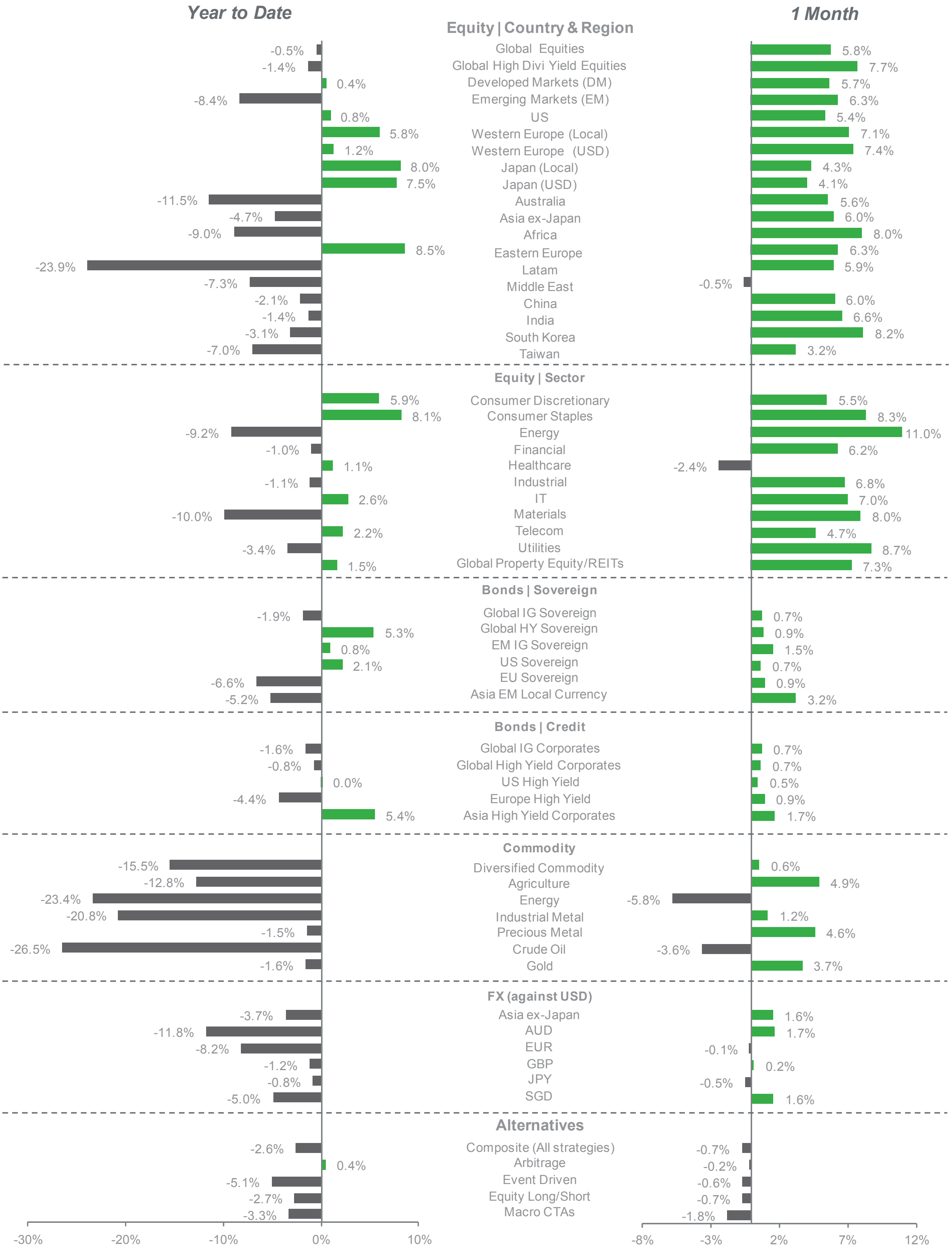
Average USD returns since 1995 (m/m)



Source: Bloomberg, Standard Chartered

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 22 October 2015 and 1-month performance from 22 September to 22 October 2015*

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

Investment Strategy

- **We still believe that concerns we are nearing the end of the cycle are overdone. Instead, a mid-cycle slowdown scenario appears more likely, which suggests US corporate credit spreads, in particular, offer value. More generally, this is a supportive environment for diversified income assets. We would not delay adding exposure.**
- **Supportive policymakers, seasonality and capped bond yields mean major equity markets may be on track for another strong Q4. Our comfort with this view has risen as markets have broken above key technical resistance thresholds (2040 on the S&P 500, 10,600 on the HSCEI).**
- **Rising risks of further policy easing in Japan and the Euro area should support the USD until the Fed starts raising rates.**

Data does not support the pessimists, who cite a number of indicators in the US (such as falling S&P 500 profits and heightened inventories) and poor Chinese data as indications the cycle is ending. We disagree, as many traditional indicators of a possible recession are not flashing red (see table on right). This is most directly positive for US corporate credit, both investment grade and high yield, which appear priced for recessionary conditions (unjustifiably so, in our view).

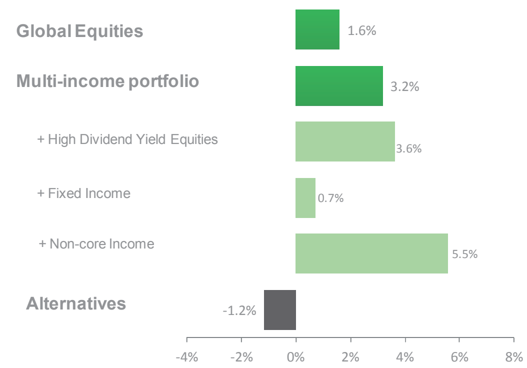
Our preferred asset classes remain good value. Global equities, for instance, fell over 15% through the summer, but have rebounded about 8.5% since. However, most of our preferred asset classes are still significantly cheaper than they were in late March (see chart on right). It is still not too late to add to our W.I.D.E.N. themes.

Implications for investors:

- **Add to our preferred asset classes, starting with diversified income.** The table on page 1 lists all our preferred asset classes, which we would add exposure to today. Diversified income is intentionally at the top of this list as it stands to benefit from slower growth, excessive recession worries and supportive policymakers.
- **Staying exposed to preferred equity markets going into Q4 is key.** The seasonal tailwind is a positive and the break above key technical resistance has further brightened the outlook. We continue to prefer the Euro area and Japan on fundamental grounds (staying FX-hedged). In Asia, we note both Chinese (H-share) and Indian equities have tended to be the strongest performers in Q4, and among the most consistent.
- **Use rebound in Asian currencies to raise USD exposure.** Continued policy divergence (easing in Asia and possible tightening in the US) means we expect the USD to remain supported until at least the first Fed hike. Asian currencies rebounded strongly, but weaker fundamentals mean we are reluctant to chase the rebound.

Our key investment themes rebounded over the past month

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



** For the period 12 December 2014 to 22 October 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*

US economic cycle indicators are mixed – pointing more to mid-cycle weakness than a recession

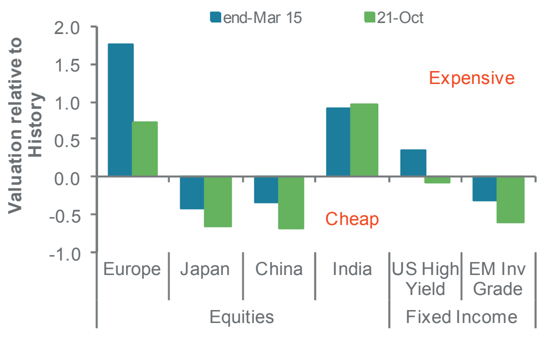
US recession checklist

Indicator	Signal
ISM new orders/inventories ratio	
S&P 500 profits	
High yield spreads	
Lead economic indicator (LEI)	
Yield curve	
Labour market	

Source: Bloomberg, Standard Chartered

Most asset classes still cheaper than March despite market rebound, with one exception

Valuations relative to history



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 outlook for global growth has softened slightly since our last monthly report, primarily due to a continued slowdown in Asia and elsewhere. Despite the downgrades, consensus forecasts still point to accelerating growth in major economies in 2016. With inflation still subdued, we expect further delays by the Fed in raising rates and higher chances of policy easing by the ECB, BoJ and PBoC.

- **Fed likely to delay rate hike until 2016 amid slower growth, low inflation.** US Q3 growth likely slowed after a rebound in the previous quarter, as a strong USD hurt exports and manufacturing while the energy sector continued to downsize amid low oil prices. This has slowed the pace of job creation, as well as consumption. With headline inflation at 0%, we expect the Fed to delay hiking rates until next year.
- **Euro area holding up well to global slowdown but low inflation points to further ECB easing.** Euro area growth likely continued to accelerate in Q3. However, investor sentiment in export-oriented economies such as Germany softened amid weaker demand from overseas, while Euro area inflation stayed close to 0%. We expect the ECB to respond with more policy easing by the end year end.
- **Japan's low inflation could lead to more BoJ easing.** The economy likely recovered from a contraction in Q2, but exports have slowed, domestic demand remains sluggish and low energy costs have kept headline inflation well below the BoJ's target. The BoJ may ease over the next six months if inflation stays depressed.
- **China decelerated further in Q3, raising the chances of more policy easing.** Growth slowed to a six-year low of 6.9% (annualised rate) in Q3, as manufacturing sector weakness was partly offset by strength in the services sector. We expect the PBoC to ease further in Q4 as it targets 7% growth this year.
- **India stands out amid deceleration in key Emerging Markets.** India's growth likely accelerated to above 7% in Q3. The RBI's fourth rate cut this year is likely to aid the recovery. However, other major markets, such as Brazil and Russia, remain in recession.

US: Slower growth, low inflation likely to push back Fed rate hike

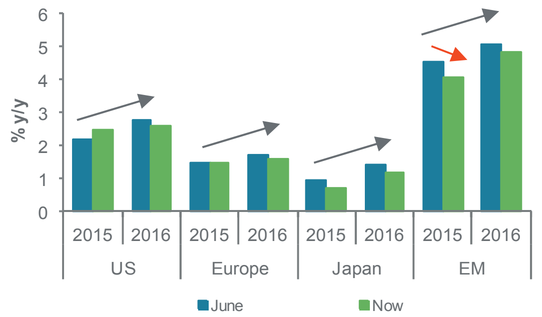
- **Growth likely slowed in Q3.** US exports and the manufacturing sector slowed in Q3, hurt by the USD's strength, while lower oil prices have hurt oil drilling activity. These factors likely offset a still-robust services sector, lowering Q3 growth to just above 2%.
- **Job market slows.** US job creation fell below 200,000 for the second month in a row in September. However, the unemployment rate remained at 5.1%, within the Fed's target, while the ratio of workers who are forced to work part-time fell to a seven-year low.
- **Retail sales decelerate as wages remain subdued.** Retail consumption, which accounts almost 70% of the economy, has decelerated since a strong rebound in Q2. This partly reflects restrained wage growth and weaker job creation.
- **Fed likely to delay rate hike until early 2016.** The slowdown in growth, low inflation (the Fed's measure was at 1.3% in August) and the lack of wage pressures are likely to give the Fed room to keep interest rates at a record low for a while longer. Fed officials have also cited overseas uncertainty for delaying a rate hike.

Euro area: Growth accelerates, but disinflationary pressures persist

- **Faster growth.** Euro area growth likely accelerated for the fifth straight quarter in Q3. This helped lower the jobless rate to a three-year low. Although business confidence is holding up and credit demand has picked up, the ECB recently lowered its growth and inflation forecasts for 2016, citing risks from Emerging Markets.

Major economies are still expected to accelerate in 2016 despite recent downgrades to growth estimates

Consensus growth forecasts for major economies/regions



Source: Citigroup, Bloomberg, Standard Chartered

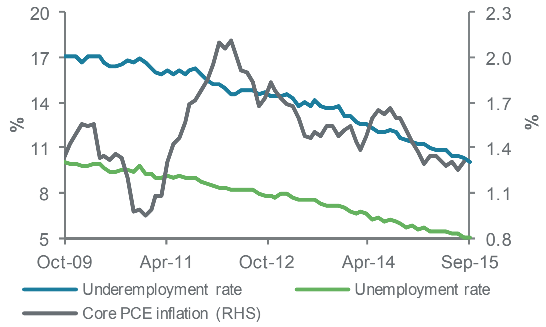
The strong USD hurt US manufacturing and exports

US exports (%, y/y); US ISM Manufacturing PMI (RHS)

Source: Bloomberg, Standard Chartered

The US unemployment rate has dropped to the Fed's target range but inflation remains subdued

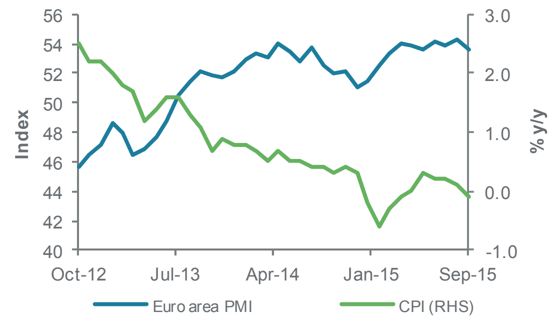
US unemployment and underemployment rate (%); US Core Personal Consumption Expenditure (%, y/y) (RHS)



Source: Bloomberg, Standard Chartered

Euro area business confidence remains robust but headline inflation has turned negative once again

Euro area Composite PMI; Euro area CPI (%, y/y) (RHS)



Source: Bloomberg, Standard Chartered

- **Disinflation pressures, China risk cloud outlook.** Headline inflation dipped to negative territory in September for the first time since March. Meanwhile, economic growth expectations (ZEW Survey) have continued to decline since May amid concerns about the outlook for exports to China and the developing world.
- **ECB signals further easing by year-end.** Although some ECB officials have raised the possibility that inflation could rise as the base effect for oil prices fades, President Draghi signalled more easing is likely by December. We believe a rise in external risks could force the ECB to expand or extend its current bond-buying programme beyond the September 2016 deadline.

UK: BoE pushes back rate hike expectations amid low inflation

- **UK job market tightens further but inflation remains low.** The jobless rate fell to a seven-year low of 5.4% in August, helping drive annual wage growth to a five-year high. However, business confidence fell to a two-year low while inflation turned negative for the first time since April, suggesting residual slack in the economy.
- **BoE dials down rate hike expectations.** BoE's October meeting showed policymakers are concerned about external risks to the UK's recovery despite resilient domestic demand and consumer spending. The BoE expects inflation to remain below 1% until spring 2016, which suggests a rate hike could be delayed further.

Japan: Persistently low inflation could lead to more BoJ easing

- **Recovery falters amid weak external demand.** Japan's economy likely returned to growth in Q3 after a contraction in the previous quarter. However, exports slowed for the third straight month in September, hurting the outlook for corporate investments, even as domestic demand remains sluggish. Meanwhile, low energy costs have kept inflation well below the BoJ's target.
- **BoJ optimistic about reviving inflation, but external headwinds increase pressure to ease.** Governor Kuroda expects inflation to return towards the 2% target by H2 16 and cited the ongoing recovery in core inflation (excluding food and energy). However, we believe slowing exports may add to disinflationary headwinds, raising the chance of further policy easing in the next six months.

China: More policy easing likely as economy decelerates

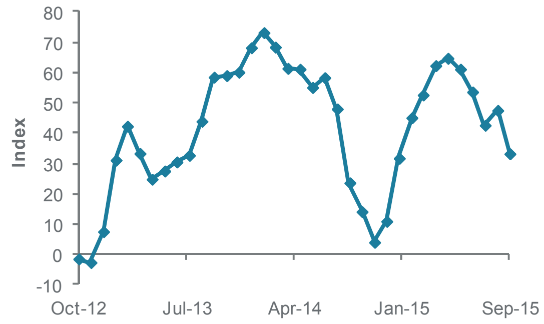
- **Economy continues to slow.** China's GDP growth slowed to an annualised rate of 6.9% in Q3, the slowest pace since 2009. Continued deceleration in manufacturing and fixed asset investment, and contraction in exports detracted from a still-robust services sector and retail sales as policymakers sought to rebalance the economy towards domestic consumption.
- **More fiscal and monetary policy easing likely.** China has cut interest rates and bank reserve requirements and accelerated infrastructure projects since last year. Recently, it added incentives for property and car buyers. We expect more stimulus in Q4 as policymakers target 7% growth for 2015. China's five-year plan, due this month, is likely to set the agenda for medium-term growth.

Other EMs: Indian growth holds out amid broad-based slowdown

- **India's growth likely accelerated.** Consensus estimates suggest growth accelerated to 7.4% in the July-September quarter on a pick-up in government investments. The RBI's surprise 50bps rate cut in September, the fourth this year, is likely to help revive lending. We expect further policy reforms in the coming quarters to encourage private investments, which have stagnated in recent years.
- **Slowdown continues in other EMs.** Brazil and Russia likely remained in recession in Q3 while weak exports continued to drag down growth across Asia. China's recovery remains key.

Euro area growth expectations continue to decline

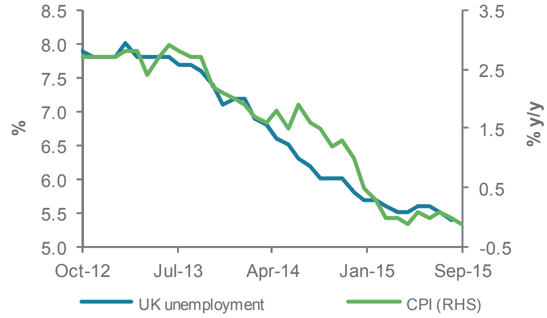
Euro area ZEW Survey Expectation for economic growth



Source: Bloomberg, Standard Chartered

UK's labour market has tightened but inflation remains well below the BoE's target

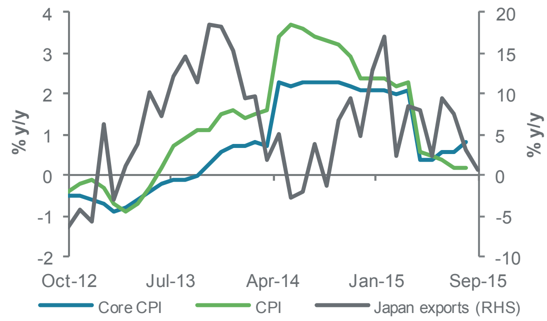
UK unemployment rate (%); UK CPI (%, y/y) (RHS)



Source: Bloomberg, Standard Chartered

Japan's export growth slowed and headline inflation remains subdued, but core inflation has been rising

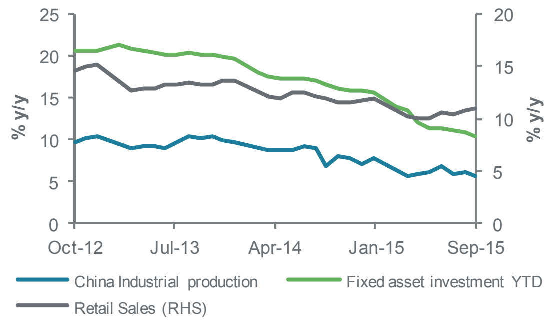
Export growth (%, y/y); CPI and core CPI (%, y/y) (RHS)



Source: Bloomberg, Standard Chartered

China's industrial production and fixed investments growth continued to slow, but retail sales are resilient

China's industrial production and fixed asset investments YTD (%, y/y); Retail sales (%, y/y) (RHS)



Source: Bloomberg, Standard Chartered

Bonds – Underweight

- **US High Yield (HY) and Investment grade (IG) bonds are increasingly attractive amid inexpensive valuations.**
- **Lower Fed interest rate expectations are likely to help yields stay benign, increasing our comfort with bonds. This is positive for diversified income assets.**

G3 and EM (USD) sovereign bonds

- **Rising comfort with bonds.** Softer-than-expected economic data in the US has pushed back the market's rate hike expectations. This, coupled with slower global growth expectations and low inflation in Europe and Japan, paints a benign picture for the yields in US, Europe and Japan.
- While returns from G3 government bonds may still be lower than equities, our comfort level is incrementally rising. Indeed, high-quality government bonds have outperformed the majority of asset classes in recent months, highlighting their diversification benefits. We continue to prefer moderate maturity profiles (averaging around five years) across USD bond allocations.
- **We continue to favour EM sovereign bonds, with a preference for the IG component.** EM sovereign bonds have been among the better performing asset classes this year, benefitting from lower Treasury yields and cheaper starting valuations. However, we acknowledge that this is a mature trade and are watching the evolution of credit quality closely.

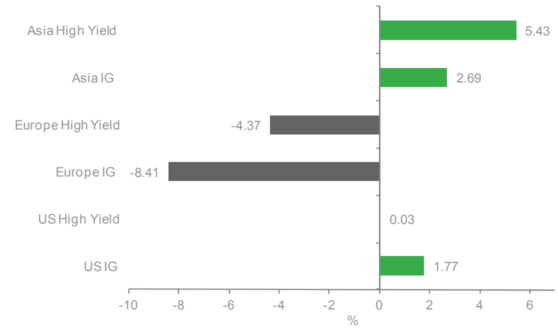
Corporate credit (USD)

- **HY Corporate bonds offer attractive exposure to US corporates.** Current growth concerns are likely to be a mid-cycle slowdown rather than a precursor to recession. While credit quality in the energy sector remains more of a concern, markets have priced in very high default rates. Hence, we believe on a broad level, the high spreads are pricing in a lot of bad news outside of energy sector, and offer an attractive risk/reward.
- **Good entry point for US IG corporate bonds.** IG corporate bond spreads have also widened significantly since mid-year to a multi-year high due to elevated supply and concerns about weakening corporate fundamentals. In our opinion, IG credit should benefit from demand for quality amid slower growth. In today's landscape of low interest rates, an average yield of 3.3% for A-rated aggregate credit quality offered by US IG corporates presents an attractive risk/reward. Wide spreads offer an attractive entry point to gain lower-volatility exposure to the US corporate sector.
- **Within corporate credit, we have a slight preference for the US over Asia.** We acknowledge that Asian corporate bonds have remained relatively resilient during recent risk-off episodes. However, it now offers a much lower-than-usual yield premium over the US. Thus, while we prefer benchmark exposure to Asian credit (see page 14), we have a tilt towards the US.

Asian local currency bonds

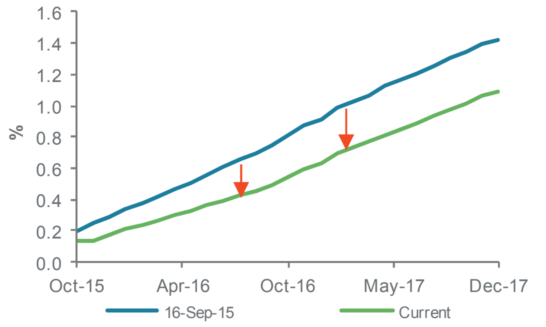
- **INR bonds bounce back.** INR bonds posted strong returns due to strengthening of the INR and a larger-than-expected rate cut. INR bonds remain our top pick in local currency bonds.
- **A benign outlook for AUD bonds, though not for the currency.** We believe the outlook for Australian yields remains supportive for bonds in local currency terms, given policy rates are likely to stay low for some time. While reducing AUD currency exposure would still be our primary preference, government and banking sector bonds can provide an opportunity to invest in income-generating assets within AUD holdings.

Performance of fixed income YTD* (USD)



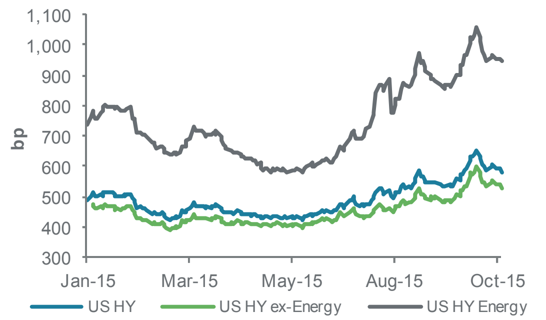
** For the period 31 December 2014 to 22 Oct 2015*
Source: Barclays Capital, JPMorgan, Bloomberg, Standard Chartered. Indices are Barclays Capital US Agg, US High Yield, Euro Agg, Pan-Euro High Yield, JPMorgan Asia Credit Index

The market's rate expectations have moved lower since the last Fed meeting
Interest rates implied by 30-day Fed fund futures



Source: Bloomberg, Standard Chartered

The energy sector in US HY is already pricing in a recession-like default rate
Spreads for US HY and its sub-components



Source: Barclays, Bloomberg, Standard Chartered

US IG corporate credit spreads are close to three-year wides
US IG Corporate credit spreads

Source: Barclays, Bloomberg, Standard Chartered

Equity – Overweight

- The US and European Q3 earnings season has started, with consensus expecting a 4% decline in the US earnings and a 6% decline in Europe. Weakness in the energy sector is primarily responsible for this decline. Excluding energy, US earnings are forecast to increase 4%.
- Corporate margins in the US have started to move lower, with potentially negative consequences for the market. However, the decline is primarily driven by lower energy prices, which gives comfort to our constructive US equity view.
- The recovery in Euro area and Japanese equity markets has outpaced that in the US from the September low. However, concerns exist over the impact of currency strength on earnings.
- India will remain in focus in the run-up to the Bihar election on 7 November; a BJP win would be positive for equities.
- High-dividend-yielding equities in Europe continue to do well, rising 12% YTD. As banks start to increase dividends, the strategy should continue to do well in the coming months.

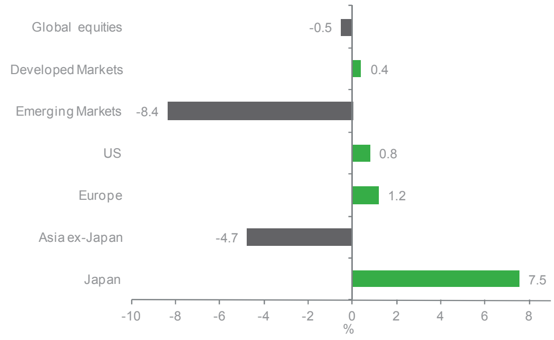
US – 2016 earnings recovery driven by energy

- We remain positive on US equities, albeit with a preference for other regions. We are focusing on earnings and margins.
- Consensus expectations for US corporate earnings are for a 4% decline in the Q3 period. The energy sector is the primary drag on earnings: the sector is forecast to witness a 60% drop in earnings over the same period.
- The market has already discounted the 45% decline in WTI crude on a year-average basis from 2014. Looking ahead, under a scenario where oil prices average similar levels as 2015 next year, the consensus forecast of a 5% recovery in energy sector earnings growth in 2016 appears achievable.
- Corporate margins in the US have rolled over lower. For non financials they have declining from 9% to 8.5% currently. Five of the past six US recessions have coincided with a decline in margins – see page 3.
- The one outlier was 1985, when oil prices declined 60% peak to trough. Given the similar drop in oil prices in the current cycle, we believe 2015/16 will also be an outlier and not a recession year.

Euro area and Japan – currency concerns

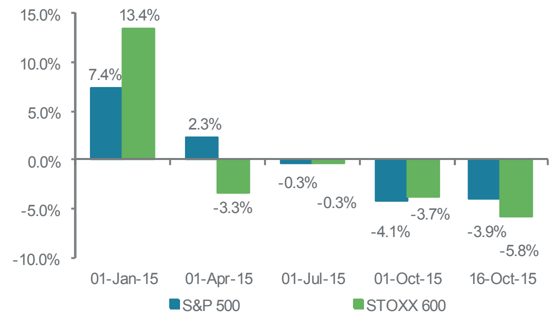
- We remain bullish on equities in the Euro area and Japan on a currency-hedged basis; however, we are shortening the tenure of our currency hedge. This reflects our conviction of dollar strength in three to six months, but declining conviction over 12 months.
- There are concerns that the recent period of euro and yen strength against the dollar will undermine the earnings recovery. We acknowledge that the euro and yen have strengthened in recent months, but not to the extent to hit earnings next year.
- Supporting our bullish view on euro area equities is the recent acceleration in household and corporate loan growth, as well as bank loan officer surveys, indicating an easing in lending conditions. This signals domestic demand is recovering.
- There are concerns that as the Japanese government pension investment fund (GPIF) has achieved its target allocation to domestic equities, a key support for the market is gone. We disagree, as private sector pension funds hold only 10% in domestic equities, down from 30%. If they increase their allocation in line with GPIF, further support for the market exists.

Performance of equity markets YTD* (USD)



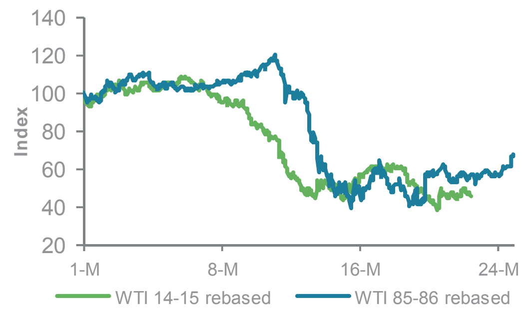
** For the period 31 December 2014 to 22 October 2015*
Source: Bloomberg, Standard Chartered. MSCI Indices are USD total return

EU + US earnings are forecast to decline in Q3
Earnings in the US + EU have been under pressure YTD



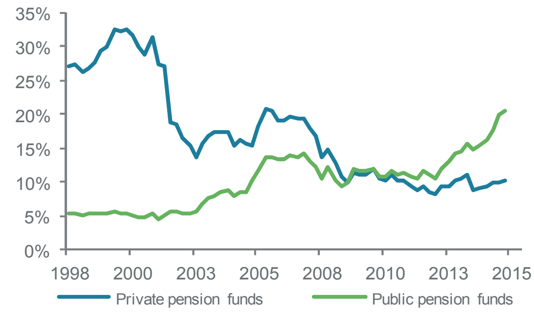
Source: FactSet, Standard Chartered

Similarities in WTI oil price trend in 1985 and the current one
WTI crude oil price trend



Source: Bloomberg, Standard Chartered

Japanese Government Pension Fund has reached target domestic equity allocation – private may follow
Domestic equity allocation of Japanese pension funds



Source: BoJ, Standard Chartered

China – No big-bang easing

- We remain bullish towards the China market, but see value in making sector-specific investments and focusing on funds with specific sector bias. Sectors we favour include consumer and technology with a focus on internet and e-commerce.
- China continues to shy away from aggressively easing policy, specifically large cuts in the reserve requirement ratio (RRR). We believe cuts in RRR are warranted given the tighter domestic liquidity environment due to capital outflows.
- Currently, the RRR in China is 18%, compared to a low of 6% in the 2000-2003 period. While the high level of the RRR was warranted in the 2008-2011 period of excess liquidity, the situation is different now. Signals from Beijing indicate it will be lowered at a measured as opposed to rapid pace.
- Reforms announced in the China telecom sector have been interpreted positively. The sector-specific announcement follows a broad SoE reform announcement in September.

Asia ex-Japan – elections and commodities in focus

- We are positive on equity markets in Asia ex-Japan, with a preference for India and China, noting that the former has more catalysts. Historically, India has been the second-best performer in the Q4 period, with a higher success rate than the best performer.
- India has recovered strongly from its early September lows, with low inflation and, in particular, energy prices benefitting the economy and in turn expectations for corporate earnings.
- The political timetable does have the potential to upset this market recovery. The state of Bihar will hold an election on 7 November and a win or loss by the ruling BJP will significantly impact the legislative agenda going forward.
- Malaysia and Indonesia have bounced back strongly over the past 30 days, benefitting from a reversal in currency and macro pessimism. We are cautious on both markets, believing that the combination of a strong dollar and uncertain commodity price outlook will weigh on the markets once the relief rally is over.

High-dividend-yielding equities – focus on Europe

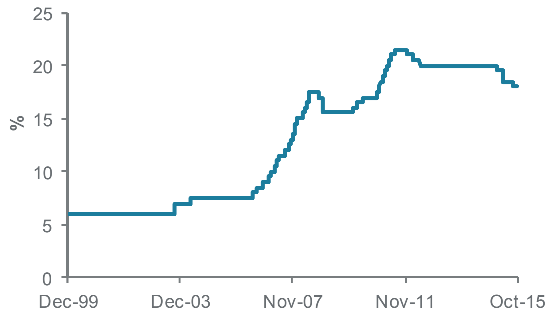
- We remain bullish on the high-dividend-yield equity (HDYE) theme. Europe, with a 5.75% yield, is our preferred region. European HDYE have risen 12% in USD since our Outlook 2015 publication, reflecting the hunger for yield as bond yields decline.
- European HDYE have a 54% weight in the UK, where we are cautious on the outlook. However, telecoms and utilities have a high weighting in EU HDYE, offsetting this concern (see page 3).
- US HDYE equities are flat YTD, indicating the greater focus on growth as opposed to dividends, which reflects the expectations for higher rates in the months ahead.
- Investors focusing on HDYE in Asia should note that they have significant exposure to China, where there may be some risks to dividends as growth continues to slow. This category has been the worst performer YTD, falling 6% in USD.

Conclusion

US and European earnings likely contracted in Q3. However, there are reasons to believe this year's earnings drag – energy – will reverse in 2016. This should provide a sufficient margin of safety to ensure earnings are market supportive in 2016. We remain positive on Euro area and Japanese equities and remain bullish on HDYE in Europe. The latter is up 12% YTD in USD terms and offers a yield of 5.75%.

Chinese reserve requirement ratio has potentially far to fall

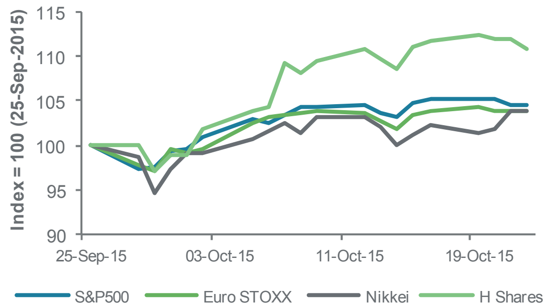
Chinese Reserve Requirement ratio (RRR) trend



Source: Bloomberg, Standard Chartered

Chinese shares have led markets higher from the September lows

Performance of select equity indices



Source: Bloomberg, Standard Chartered

EU high-dividend-yielding equities witness best performance trend since our 2015 Outlook publication

EU, US + Asian high-dividend-yielding equities performance

Source: MSCI, Bloomberg, Standard Chartered

Commodities – Underweight

- We expect further near-term weakness in oil prices
- We do not see sustained upside in gold and expect the medium-term downward trend to resume

We remain bearish on commodities. We expect the recent uptrend in commodity prices to be short-lived and reverse soon. In our view, this uptrend is likely a result of a weaker USD, oversold technical indicators and scaling back of US Fed rate-hike expectations. We also continue to see little divergence in the outlook for individual commodities.

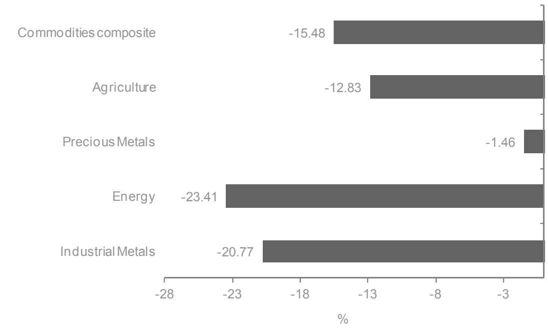
Oil prices may fall further, before bottoming. We see further evidence of a build-up of crude inventories in the US and OECD, coupled with only marginal declines in production. US oil production has declined only slightly from a high level and is likely to continue to contribute towards the build-up of global stock piles, which remain elevated near historic highs. To add to this, the lack of additional storage facilities may soon become a substantial catalyst for further downside in prices. Similarly, OPEC oil production remains elevated with only a slight fall in production, which is unlikely to reduce inventories meaningfully. On the demand side, the lacklustre global growth scenario is unlikely to help lift prices, amid modest growth in the US, Euro area, Japan and China. One can paint a scenario where falling prices hurt production sufficiently to start offering support to prices, but this is likely to take some time to evolve.

We expect gold to resume its downtrend. The recent rise in gold prices is likely to be temporary, in our opinion, driven by seasonal demand and a slightly weaker USD. However, we do not believe this is sustainable, as weak fundamentals are likely to weigh-in. Investor sentiment towards gold does not seem to have improved drastically, judging from only a modest uptick in ETF holdings. We observe a relatively tight inverse relationship of gold with real yields (see chart on the right), which in our opinion is likely to continue to increase. We believe the low global inflationary environment is likely to persist, while even a marginal increase in interest rates is likely to increase real yields. This is ultimately likely to put downside pressure on gold.

We expect further weakness in base metal prices. Overall, we believe base metals are expected to remain fundamentally weak, amid lack of demand growth in China and high inventory levels. Copper prices are likely to remain under pressure amid weak demand and the recent acceleration in inventory. Similarly, we believe the demand-supply imbalance in the iron ore market is also likely to persist. China demand continues to decline while supply may adjust only gradually, in our view, leaving markets oversupplied. A significant reduction in supply, along with substantial expansion of infrastructure development in China, would likely be needed for us to re-visit our view. However, on a 12-month horizon, we deem a low probability of this happening.

We see no evidence of a rebound in agri-commodities. Within agri-commodities, we believe the recent rally in dairy prices is unlikely to be sustained as demand-supply fundamentals remain weak. We believe significant supply from the top three producers, New Zealand, Euro area and the US, with weak demand from China are likely to keep markets in oversupply. Elsewhere in the agri-commodity space, stock levels remain elevated and are unlikely to decline significantly soon. Hence, we see little reason to expect a rebound in prices. The impact from El Nino, however, poses some challenges to this view. However, this is likely to affect different crops through varying time periods. For example, palm oil prices, historically more impacted by El Nino, have rallied to YTD highs.

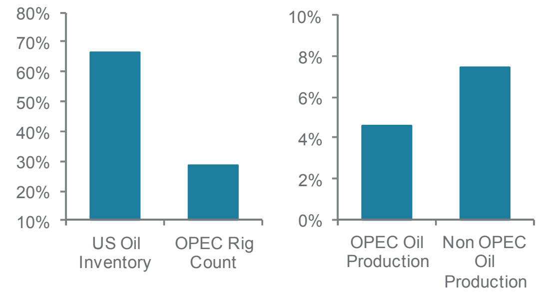
Performance of commodities YTD* (USD)



** For the period 31 December 2014 to 22 October 2015*
Source: DJUBS, Bloomberg, Standard Chartered
DJUBS, DJUBS Agri, DJUBS Precious metals, DJUBS Energy, DJUBS Industrial metals

Both stock and flow indicators for oil point to further downside

Oil production and inventory levels (% above the 5-year average levels)



Source: Bloomberg, Standard Chartered

Gold has a strong relationship with real yields

US 5-year TIPS yield and gold prices

Source: Bloomberg, Standard Chartered

Technically, gold appears to be in a long-term downtrend

Gold prices

Source: Bloomberg, Standard Chartered

Alternative Strategies – Overweight

- We favour Alternative Strategies, within which we prefer equity long/short, macro/CTA and event-driven strategies. Policy divergence, demand for protection against volatility and rising mergers and acquisitions remain key asset class drivers.
- The asset class has lagged in the rebound, but we would not be excessively concerned and expect it to catch up. Alternative Strategies helped reduce volatility over the summer, underscoring their value in a diversified allocation.

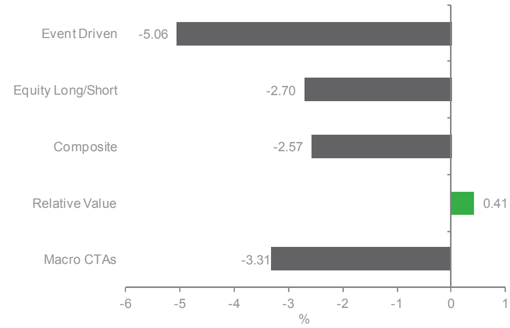
Alternative strategies have lagged in the rebound, but we expect this to be temporary. A catch-up is likely as the upward trend across equities and corporate credit extends, in our view. Nevertheless, the asset class demonstrated its value through summer volatility, falling only 6% between 21 May and 29 September, even though global equities fell 15.5% over the same period.

Key drivers for alternative strategies remain in place. The announcement of more large-scale mergers and acquisition deals are positive for event-driven strategies as activity volume continues to rise. Equity long/short strategies remain a valuable sub-strategy in an environment where volatility remains a key risk. Further delays in the market's assessment of a Fed rate hike were likely a key factor behind macro strategies' continued weakness, but we prefer to stay the course given policy direction has not changed for major central banks.

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 22 October 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 the USD to recover broadly over the next few months, following its recent correction
- The recent bounce in SGD, AUD and NZD offers an opportunity to reduce exposure to these currencies

USD: We expect medium-term appreciation: We expect the USD to strengthen as a Fed rate hiking cycle remains on the horizon, though we recognise that upside may become limited once rate hikes are fully priced in. As mentioned previously, we believe the first Fed rate hike is likely to be delayed into 2016 while the cycle itself is likely to be gradual, compared to previous instances. Nonetheless, we believe Fed interest rate hikes are not fully priced into two-year Treasury yields and, hence, believe there is further room for upside, at least over the next few months.

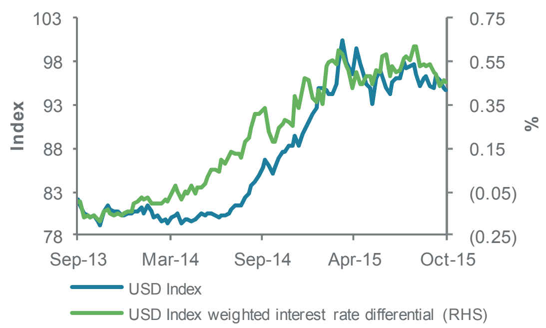
In our view, the recent pullback in the USD was the result of a scale back in US interest rate expectations and unwinding of excessive long positions against EM and commodity currencies. We do not believe the current level of short-term yields accurately reflects our anticipated path of Fed rate hikes. Hence, we see the recent pullback as an opportunity to add to USD positions. From a technical perspective, the USD index (see adjacent chart) is in a key support region, from where it has bounced previously.

EUR and JPY: We expect medium-term depreciation: We believe the EUR and the JPY are likely to weaken in the immediate term, mainly as interest rate differentials move in favour of the USD.

In the case of Japan, while the JPY is now significantly undervalued relative to history, we do not see immediate catalysts for an adjustment. In our view, markets are likely to remain focused on the probability of additional BOJ easing. We believe either consistent

Slight narrowing of interest rate differentials have resulted in USD weakness recently

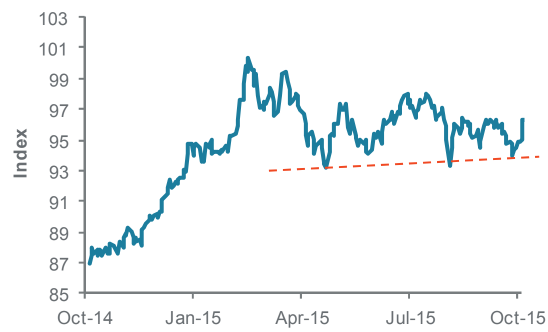
USD index-weighted interest rate differentials and USD index



Source: Bloomberg, Standard Chartered

USD index at levels from where it has rebounded previously

USD index



Source: Bloomberg, Standard Chartered

inflation or a peaking of the US economic cycle would be required for JPY appreciation to begin. In Europe, we believe policy is likely to keep yields capped, which is likely to support the continued use of the EUR as a funding currency and support capital outflows from Europe. In addition, we do not rule out an extension of additional measures to add further support should the economy begin to sputter.

GBP: We remain medium-term neutral: We expect the GBP to trade sideways to the USD in the interim, but outperform G10 and Asia ex-Japan currencies. In our view, the UK recovery remains broadly on track, particularly with respect to a continued pick-up in wages, consumer confidence and a fall in unemployment. In our view, the Bank of England (BoE) is likely to act sooner than the markets anticipate, even as the central bank pushed back rate-hike expectations. However, dampening of sentiment amid issues surrounding Euro area membership and current account deficit funding concerns are key risks to our view.

AUD: We expect medium-term depreciation: We expect recent strength in the AUD to have ended and see the rebound as an opportunity to reduce exposure. In our view, the pick-up in the pair may have been a result of improvement in risk sentiment following a scaling back of Fed rate-hike expectations. However, since the supply-demand situation in iron ore, Australia's largest export, continues to argue for further price weakness, we do not see significant fundamental support behind the AUD. In addition to this, the Reserve Bank of Australia (RBA) remains cautious and is likely to ease further, in our opinion, should economic data worsen.

NZD: Rebound unlikely to last: We do not see the recent rally in the NZD being sustained and view this as an opportunity to reduce exposure. We believe part of the recent rise may have been explained by the recent sharp bounce in dairy prices, New Zealand's largest export. However, given that we see a large supply-demand imbalance persisting, we do not expect recent NZD strength to be sustainable. Moreover, we also expect more policy rate cuts by the Reserve Bank of New Zealand (RBNZ), beyond what markets expect, amid weak domestic fundamentals.

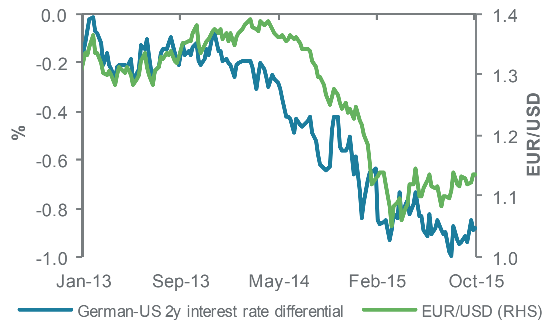
SGD: We expect depreciation to resume: We believe recent SGD strength following slight policy easing by the Monetary Authority of Singapore (MAS) is likely to be temporary. In our view, the SGD strengthened as GDP growth in Singapore was slightly higher than expected, while the MAS move was smaller than the markets anticipated. Going forward, however, we believe a stronger USD is likely to be the main catalyst for a weaker SGD.

Other Asia ex-Japan: We remain medium-term bearish: We remain bearish on the Asia-ex Japan currencies as a whole. Hence, we believe the recent bounce is an opportunity to increase allocation to the USD. The region's currencies may have been adjusting from technically oversold levels following the sharp correction in August. On a relative basis, we expect continued outperformance in the INR and PHP and expect the KRW, TWD, MYR and SGD to underperform. We expect the CNY, IDR and THB to perform in-line with peers.

For both INR and PHP, a strong external balance of payments position remains a key supporting factor. However, in the case of PHP, highly stretched currency valuations are risks to our view. For TWD and KRW, exposure to China trade and easing bias in monetary policy remain key negatives. For MYR, exposure to commodity prices and general outflow of capital from EMs remains major negatives. We believe the CNH is likely to continue its broad range-bound movement. In our view, the policy of maintaining a stable exchange rate is likely to remain unchanged.

Interest rate differentials to remain the main case for bearish view on the EUR

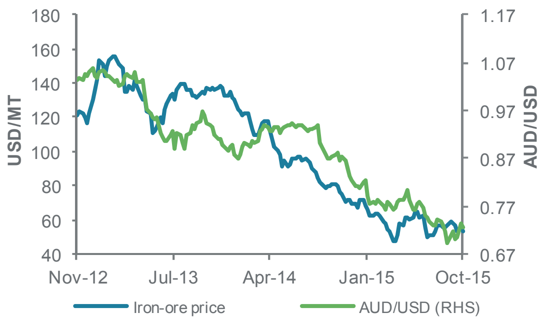
German-US 2-year interest rate differentials and EUR/USD



Source: Bloomberg, Standard Chartered

AUD continues to follow the decline in iron ore prices

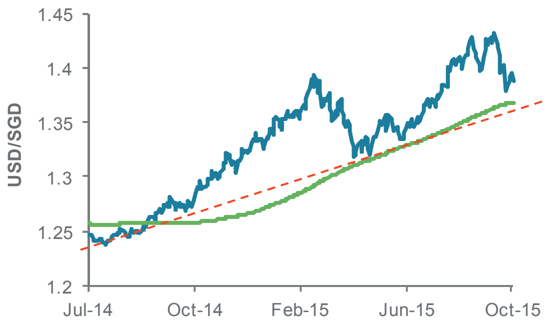
Iron-ore prices and AU/USD



Source: Bloomberg, Standard Chartered

Bounce in the SGD from technically significant levels suggests a continuation in the rally

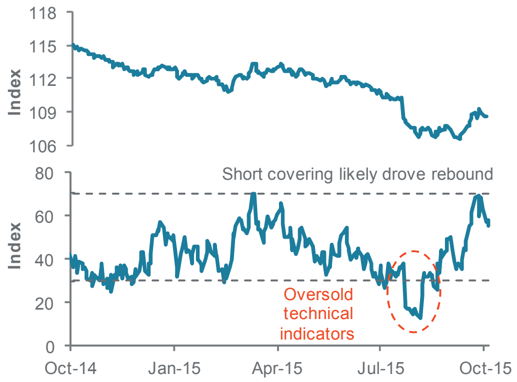
USD/SGD spot



Source: Bloomberg, Standard Chartered

Rally in Asia ex-Japan currencies likely due to technically oversold indicators

ADXY and RSI (14)



Source: Bloomberg, Standard Chartered

Appendix

Overweight Calls

Asset Class	Equity Region	Fixed Income LC	Equity Global Sector
Equities	Europe	INR	Technology
Alternatives	Japan		Energy
			Industrials
			Discretionary
			Financials
			Materials
	Fixed Income	**FX 6-12mth views**	**Asia Pac***
	EM IG	USD	China
	DM HY		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	Equity Region	Fixed Income LC	Equity Global Sector
Cash	Other EM	SGD	Utilities
Fixed Income	UK	MYR	Telecom
Commodities		TWD	
	Fixed Income	**FX 6-12mth views**	
	DM IG	EUR AUD	
		JPY SGD	
		TWD KRW	**Asia Pac***
		MYR NZD	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 Asset Allocation		🟠	🟠	**Portfolio anchor; source of yield; some interesting areas but not without risks**
Corporate - HY	7.1	🟢	🟢	Yield premiums discount rising defaults; attractive yield, value; biggest obstacle fund flows, 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 bond spreads wide
EM - HY	8.2	🟢	🔴	Higher yield 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 FX tail risks
CNY bonds	3.2	🟠	🟠	Room for lower inflation-adjusted rates; yields not that high, given CNY risks
INR bonds	7.9	🟢	🟢	Structural story; high inflation-adjusted yields; strong central bank, reforms; foreign demand
Investment Grade	1.6	🔴	🔴	Portfolio anchor, safe yield, some exciting areas
Corporate - IG	2.8	🟠	🟠	Yield premiums have widened, some value appearing; long-term bonds look appealing if Fed hiking cycle muted
Sovereign	1.2	🔴	🔴	Momentum, QE offer strong anchors for EU, but little value; long USTs; AU, NZ well 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 and 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 investor 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

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