global market outlook

This reflects the views of the Wealth Management Group

macro strategy | 20 November 2015

Stay invested going into year-end

- **The Fed seems on course to start a very gradual pace of rate hikes in December, and markets appear to be fine with this.**
- **The ECB is prepping for a possible further policy easing in December, and the BoJ maintained its record stimulus.**
- **With oil prices likely to stay low, in our opinion, and seasonality on our side, we would stay invested in our key themes – equities, diversified income assets and the USD.**

Key takeaways from the markets. As the year draws to a close, we take away five cues from the markets – a. the importance of staying invested; b. central banks are still investor's 'friends'; c. markets are unperturbed by a potential Fed hike in December; d. oil is likely to stay low for longer; and e. seasonality remains a tailwind for equities.

Staying the course. The first takeaway is the importance of staying invested. Panicking and selling during the volatility in August-September would have made it difficult to re-enter on time and benefit from the strong equity rally in October-November (see chart below). History has shown timing the markets can be unprofitable.

The Fed, ECB and BoJ are investors' 'friends'. The Fed's messaging has become more clear and consistent – it is getting ready to raise rates in December, and only because the economy has substantially healed. Moreover, further rate hikes will depend on the data, with the base scenario of a gradual pace of hikes next year. The ECB, meanwhile, is preparing to cut rates deeper into negative territory, as it supports the ongoing recovery. The BoJ and PBoC both remain supportive. Central banks are, thus, very supportive of growth.

Markets appear relaxed about a potential Fed hike. Unlike the mid-summer volatility, or the 'taper-tantrum' in 2013, the Fed's latest communication about a possible rate hike in December has been received well by the markets. US stock, bond and currency volatilities are at or below their five-year averages. Markets appear fine with a hike, most likely because the economy supports it.

Oil and commodities likely to stay low for longer. OPEC is likely to continue defending its market share, keeping oil prices in recent range. The metals markets remain oversupplied. Both factors are likely to subdue commodity prices, supporting global growth and equities.

Seasonality tailwind. Q4 and Q1 are historically the best quarters for equities, with December the best month on average. Combined with supportive factors highlighted above, this gives us added confidence to stay invested in our key themes (see table on the right).

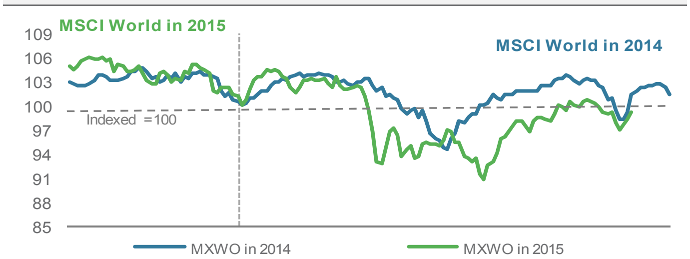
Contents

Our preferred asset classes or strategies
Diversified income assets
Global high-quality equities
Euro area equities (currency-hedged)
Japan equities (currency-hedged)
Chinese and 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*

The rebound in equity markets is following a pattern seen in 2014

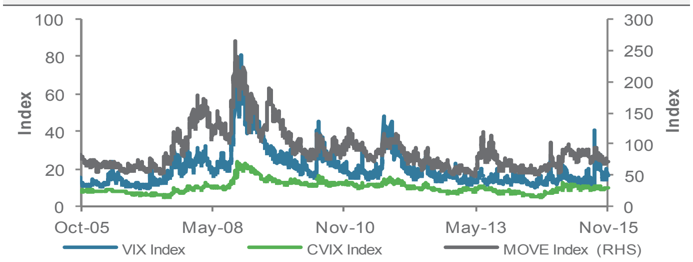
MSCI World Index (Developed Markets); 2014 shifted forward by 1 mth



Source: Bloomberg, Standard Chartered

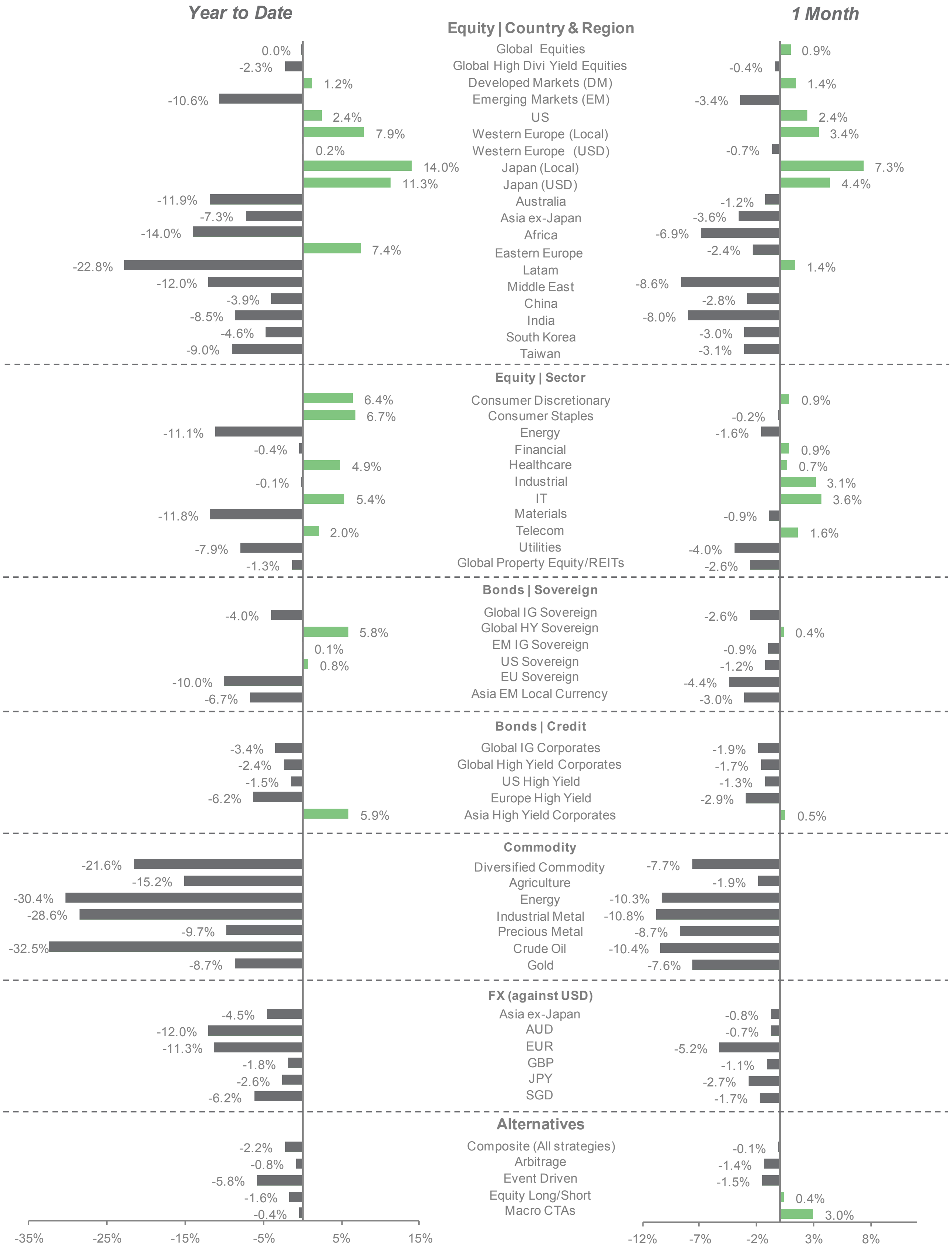
Volatility in equities, bonds and currencies remain below average

VIX (equities), CVIX (FX) and MOVE (bond) volatility indices



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 19 November 2015 and 1-month performance from 19 October to 19 November 2015*

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

Investment Strategy

Equities: China technology sector gets a boost

- **MSCI China Index revamp positive for technology sector**. The inclusion of American Depositary Receipts (ADR) in the MSCI China Index will lift the technology sector's weight to 27%. Technology and consumer sectors will have a bigger share of the revamped MSCI China Index relative to the HK-listed HSCEI. The change is likely to boost fund inflows into China's technology and consumer sectors.
- **Add exposure to US banking sector**. A Fed rate hike is likely to be positive for US banks as higher rates boost lending margins.
- **More policy easing in Asia may support equities.** FX markets were stable after Bank Indonesia's decision to cut bank reserve requirements. This may embolden Asian central banks to ease monetary policies further to support growth despite the prospect of higher US rates. Rate cuts would be positive for Asian equities.

Bonds: Limited upside to US Treasury yields

- **Maintain five-year average maturity profile**. A gradual Fed rate hiking cycle poses upside risks for very short-maturity yields, but limited upside for longer maturity bonds. We would maintain a five-year average maturity profile in USD bond allocations.
- **US corporate bonds likely to outperform near term.** Tighter US lending standards have raised concerns lately. However, defaults in the energy and materials sectors have remained within expectations. We see the recent concerns as an opportunity to add to US High Yield (HY) and Investment Grade (IG) corporate bonds.
- **Stay with INR bonds:** While we are increasingly constructive on local currency bonds in Asia from a yield perspective, currency risks remain a key concern. We would hold INR bonds for now and revisit other markets only once the Fed has lifted rates off zero.

FX: Remain bullish on USD

- **Rising rate differential still positive for USD.** A potential Fed rate hike and further ECB policy easing are likely to widen the rate differential in favour of US Treasuries. This is bullish for USD.
- **Significant JPY weakness less likely in medium term**. Although the JPY may weaken in the run-up to a Fed rate hike, an improving outlook for Japan's core inflation and services and historically low valuations may limit significant JPY weakness in the medium term.
- **INR, CNY likely to stay resilient**. While we remain bearish on Asia ex-Japan currencies going into a Fed rate hike, we believe the INR and CNY are likely to outperform their peers in Asia.

Commodities: Bearish on oil and gold

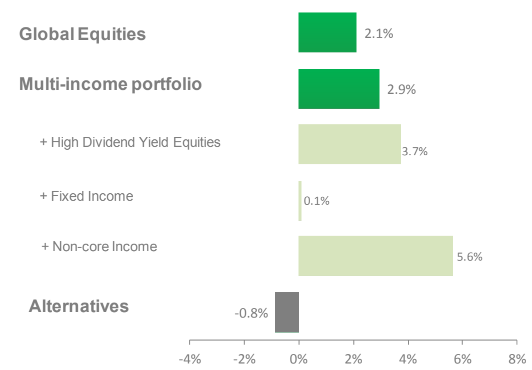
- **Oil likely to remain under pressure from inventory**. We expect oil to remain range-bound near term, as US inventory nears a record high and little sign of a cutback in OPEC output.
- **Fed hike, China rebalancing to keep gold, base metals under pressure**. We remain bearish on gold as higher US rates are negative for the non-interest bearing precious metals. We expect copper and iron ore to fall further on falling demand from China.

Alternatives: Performed well in October rebound

- **Macro strategies offset equity market weakness**. Although event-driven, equity long/short softened lately, macro strategies have risen since mid-October on the back of the USD rebound.
- **Key drivers in place**. Equity long/short outperformed in the recent equity correction, while policy divergence supported macro strategies. M&A activity is positive for event-driven strategies.

Our key investment themes rebounded over the past month

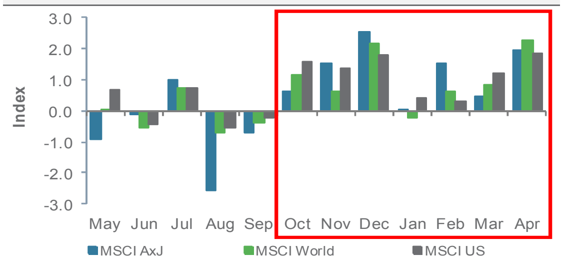
*W.I.D.E.N. performance since Outlook 2015 publication**



** For the period 12 December 2014 to 19 November 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*

December is one of the strongest months for equities

Average USD monthly returns since 1995



Source: Bloomberg, Standard Chartered

Asset Class	Relative Outlook	Start Date
Cash	**UW**	**Feb-12**
Fixed Income	**UW**	**Jan-11**
Sub-asset Class		
DM IG	UW	Jan-11
EM IG	OW	Dec-14
DM HY	OW	Aug-15
EM HY	N	Dec-14
Equity	**OW**	**Aug-12**
Sub-asset Class		
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*
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

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 6-12m 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 are 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 6-12m views		Asia Pac*
DM IG	EUR	AUD	Singapore
	JPY	SGD	Malaysia
	TWD	KRW	
	MYR	NZD	

Equity Regional Sector

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

**Within our Neutral Asia ex-Japan view, we are 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	7.4	🟢	🟢	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	4.8	🟢	🟡	Attractive yield premium for quality credit; EM IG sovereign bond spreads wide
EM - HY	8.0	🟢	🔴	Higher yield vs. EM IG, but many idiosyncratic stories; lower risk/reward
Asia local currency bonds	3.1	🔴	🔴	Broad risk/reward unattractive; yields are too low for the FX tail risks
CNY bonds	4.0	🟡	🟡	Room for lower inflation-adjusted rates; yields not that high, given CNY risks
INR bonds	8.1	🟢	🟢	Structural story; high inflation-adjusted yields; strong central bank, reforms; foreign demand
Investment Grade	1.6	🔴	🔴	Portfolio anchor, safe yield, some interesting areas
Corporate - IG	2.7	🟡	🟡	Yield premiums have widened, some value appearing; long-term bonds look appealing if Fed hiking cycle muted
Sovereign	1.1	🔴	🔴	Momentum, QE offer strong anchors for EU, but little value; long-end USTs; AU, NZ, Spain well supported
Equity Income Allocation	**4.0**	🟡	🟢	**Key source of income and upside capital growth**
North America	3.3	🟡	🟡	Fair valuations; subdued sales/profit growth mean below avg. returns; some sectors attractive
Europe ex-UK	5.4	🟢	🟢	Attractive valuation; ECB and FX support; good momentum; risk of payout cuts and exposure to global growth
Asia ex-Japan	4.9	🟡	🟡	Good payouts; selectively attractive valuations, but challenges from growth, earnings, the Fed and leverage
Non-core income	**4.3**	🟡	🟡	**Useful diversifier for income and growth**
Preferred	5.8	🟢	🟡	Positive on financials; benefits from higher rates; high sensitivity to investor flows
Convertibles	4.0	🟡	🟡	Attractive, given limited equity upside; risk/reward depends on actual bonds held
Property	3.1	🟡	🔴	Attractive yield diversifier; still-stable real estate market; at risk from higher rates and outflows
Covered Calls	4.1	🟡	🟡	Useful yield diversifier and enhancer

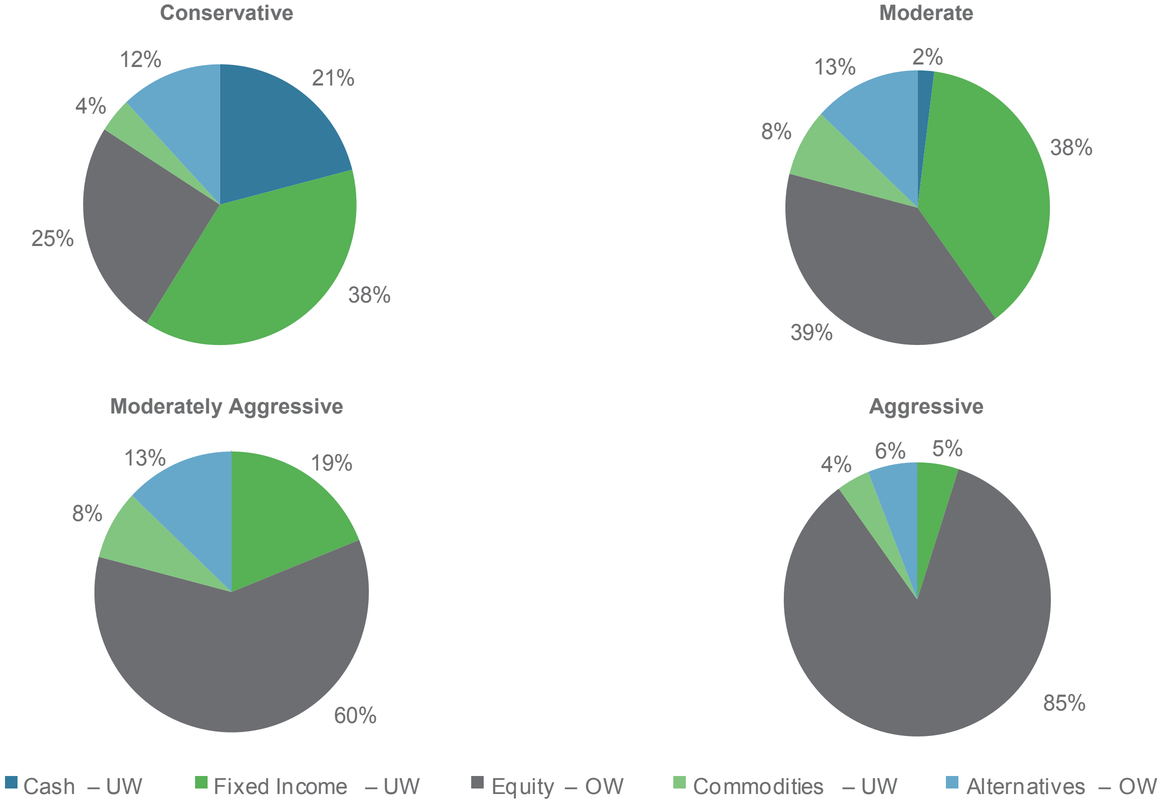
Source: Bloomberg, Standard Chartered

Legend: IG – Investment Grade, HY – High Yield, EM – Emerging Markets

Asset Allocation Summary

Tactical Asset Allocation - December 2015 (12M)

All figures are in percentages *Currency: USD*



Asset Class	Region	View vs. SAA	Conservative	Moderate	Moderately Aggressive	Aggressive
Cash & Cash Equivalents	USD Cash	UW	21	2	0	0
Investment Grade	IG Developed World	UW	26	17	0	0
	IG Emerging World	OW	6	10	5	0
High Yield	HY Developed World	OW	2	7	6	2
	HY Emerging World	N	4	4	8	3
Developed Market Equity	North America	N	8	11	17	24
	Europe ex-UK (FX-hedged)	OW	8	9	14	21
	UK	UW	0	2	2	3
	Japan (FX-hedged)	OW	2	3	6	7
Emerging Market Equity	Asia ex-Japan	N	7	12	18	26
	Other EM	UW	0	2	3	4
Commodities	Commodities	UW	4	8	8	4
Alternative Strategies		OW	12	13	13	6

Source: Standard Chartered

Economic & Market Calendar

Next Week: Nov 23 - Nov 27

		Event	Period	Expected	Prior
MON	FR	Markit France Composite PMI	Nov P	–	52.6
	GE	Markit/BME Germany Manufacturing PMI	Nov P	–	52.1
	GE	Markit Germany Services PMI	Nov P	–	54.5
	GE	Markit/BME Germany Composite PMI	Nov P	–	54.2
	EC	Markit Eurozone Manufacturing PMI	Nov P	–	52.3
	EC	Markit Eurozone Services PMI	Nov P	–	54.1
	EC	Markit Eurozone Composite PMI	Nov P	–	53.9
	US	Chicago Fed Nat Activity Index	Oct	–	-0.37
	US	Existing Home Sales	Oct	5.43m	5.55m
TUE	JN	Nikkei Japan PMI Mfg	Nov P	–	52.4
	GE	GDP SA q/q	Q3 F	–	0.30%
	GE	Exports q/q	Q3	–	2.20%
	GE	Imports q/q	Q3	–	0.80%
	GE	IFO Business Climate	Nov	–	108.2
	GE	IFO Current Assessment	Nov	–	112.6
	GE	IFO Expectations	Nov	–	103.8
	SA	GDP Annualized q/q	Q3	–	-1.30%
	TU	Benchmark Repurchase Rate	Nov 24	–	7.50%
	US	GDP Annualized q/q	Q3 S	2.00%	1.50%
	US	Personal Consumption	Q3 S	–	3.20%
	US	S&P/CS Composite-20 y/y	Sep	–	5.09%
	US	Consumer Confidence Index	Nov	99.2	97.6
WED	JN	Cabinet Office Monthly Economic Report for November			
	AU	Skilled Vacancies m/m	Oct	–	1.80%
	JN	Small Business Confidence	Nov	–	48.7
	US	Personal Income	Oct	0.40%	0.10%
	US	Real Personal Spending	Oct	0.20%	0.20%
	US	PCE Deflator y/y	Oct	–	0.20%
	US	PCE Core y/y	Oct	–	1.30%
	US	Durable Goods Orders	Oct	1.50%	-1.20%
	US	Cap Goods Orders Nondef Ex Air	Oct	–	-0.30%
	US	Cap Goods Ship Nondef Ex Air	Oct	–	0.50%
	US	New Home Sales	Oct	500k	468k
	US	U. of Mich. Sentiment	Nov F	93.1	93.1
	US	U. of Mich. Current Conditions	Nov F	–	104.8
	US	U. of Mich. Expectations	Nov F	–	85.6
	US	U. of Mich. 1 Yr Inflation	Nov F	–	2.50%
	US	U. of Mich. 5-10 Yr Inflation	Nov F	–	2.50%
	BZ	Selic Rate	Nov 25	14.25%	14.25%
THUR	AU	Private Capital Expenditure	Q3	–	-4.00%
	EC	M3 Money Supply y/y	Oct	–	4.90%
	GE	GfK Consumer Confidence	Dec	–	9.4
FRI	JN	Overall Household Spending y/y	Oct	–	-0.40%
	JN	Natl CPI y/y	Oct	–	0.00%
	JN	Natl CPI Ex Food, Energy y/y	Oct	–	0.90%
	CH	Industrial Profits y/y	Oct	–	-0.10%
	UK	GDP q/q	Q3 P	–	0.50%
	UK	GDP y/y	Q3 P	–	2.30%
	UK	Private Consumption q/q	Q3 P	–	0.70%
	UK	Government Spending q/q	Q3 P	–	0.90%
	UK	Gross Fixed Capital Formation q/q	Q3 P	–	0.90%
	UK	Exports q/q	Q3 P	–	3.90%
	UK	Imports q/q	Q3 P	–	0.60%
	UK	Total Business Investment q/q	Q3 P	–	1.60%
	EC	Economic Confidence	Nov	–	105.9
	EC	Business Climate Indicator	Nov	–	0.44
	EC	Industrial Confidence	Nov	–	-2
	EC	Services Confidence	Nov	–	11.9
	EC	Consumer Confidence	Nov F	–	–
	CA	Raw Materials Price Index m/m	Oct	–	3.00%

Previous data are for the preceding period unless otherwise indicated
Data are % change on previous period unless otherwise indicated
P - preliminary data, F - final data, sa - seasonally adjusted
y/y - year on year, m/m - month-on-month, q/q – quarter on quarter

This Week: Nov 16 - Nov 20

		Event	Period	Actual	Prior
MON	JN	GDP Annualized SA q/q	Q3 P	-0.8%	-0.7%
	JN	GDP Deflator y/y	Q3 P	2.0%	1.5%
	JN	GDP Private Consumption q/q	Q3 P	0.5%	-0.6%
	JN	GDP Business Spending q/q	Q3 P	-1.3%	-1.2%
	UK	Rightmove House Prices y/y	Nov	6.2%	5.6%
	ID	Exports y/y	Oct	-21.0%	-17.6%
	IN	Wholesale Prices y/y	Oct	-3.81%	-4.54%
	EC	CPI y/y	Oct F	0.1%	0.0%
	EC	CPI Core y/y	Oct F	1.1%	1.0%
	IN	Exports y/y	Oct	-17.5%	-24.3%
	IN	Imports y/y	Oct	-21.2%	-25.4%
	US	Empire Manufacturing	Nov	-10.74	-11.36
TUE	ID	Bank Indonesia Reference Rate	Nov 17	7.50%	7.50%
	AU	RBA Nov. Meeting Minutes			
	EC	EU27 New Car Registrations	Oct	2.9%	9.8%
	UK	CPI y/y	Oct	-0.1%	-0.1%
	UK	CPI Core y/y	Oct	1.1%	1.0%
	UK	PPI Output NSA y/y	Oct	-1.3%	-1.8%
	EC	ZEW Survey Expectations	Nov	28.3	30.1
	GE	ZEW Survey Current Situation	Nov	54.4	55.2
	GE	ZEW Survey Expectations	Nov	10.4	1.9
	US	CPI y/y	Oct	0.2%	0.0%
	US	CPI Ex Food and Energy y/y	Oct	1.9%	1.9%
	US	Industrial Production m/m	Oct	-0.2%	-0.2%
	US	Capacity Utilization	Oct	77.5%	77.7%
WED	AU	Westpac Leading Index m/m	Oct	0.1%	0.1%
	AU	Wage Price Index y/y	Q3	2.3%	2.3%
	CH	China October Property Prices			
	EC	Construction Output y/y	Sep	1.8%	-1.4%
	US	Housing Starts	Oct	1060k	1191k
	US	Building Permits	Oct	1150k	1105k
THUR	JN	BOJ Annual Rise in Monetary Base JPY	Nov 19	80t	80t
	JN	Bank of Japan Monetary Policy Statement			
	SA	SARB Announce Interest Rate	Nov 19	6.25%	6.0%
	US	U.S. Fed Releases Minutes from Oct. 27-28 FOMC Meeting			
	SK	PPI y/y	Oct	-4.5%	-4.6%
	JN	Exports y/y	Oct	-2.1	0.5
	JN	Imports y/y	Oct	-13.4	-11.0
	JN	All Industry Activity Index m/m	Sep	-0.2%	-0.1%
	JN	Nationwide Dept Sales y/y	Oct	4.2%	1.8%
	JN	Machine Tool Orders y/y	Oct F	-22.9%	-23.1%
	EC	ECB Current Account SA	Sep	29.4b	18.7b
	UK	Retail Sales Ex Auto Fuel y/y	Oct	3.0%	5.7%
	EC	ECB account of the monetary policy meeting			
	US	Philadelphia Fed Business Outlook	Nov	1.9	-4.5
	US	Leading Index	Oct	0.6%	-0.1%
FRI	GE	PPI y/y	Oct		-2.10%
	CA	Retail Sales m/m	Sep		0.50%
	CA	CPI y/y	Oct		1.00%
	CA	CPI Core y/y	Oct		2.10%
	EC	Consumer Confidence	Nov A		-7.7

Previous data are for the preceding period unless otherwise indicated
Data are % change on previous period unless otherwise indicated
P - preliminary data, F - final data, sa - seasonally adjusted
y/y - year on year, m/m - month-on-month, q/q – quarter on quarter

Source: Bloomberg, Standard Chartered

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 Standard Chartered Bank, ("SCB") 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.

United Kingdom: Standard Chartered Bank (trading as Standard Chartered Private Bank) is an authorised financial services provider (licence number 45747) in terms of the South African Financial Advisory and Intermediary Services Act, 2002

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 or 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 or 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.