Global Market Outlook

August 2016

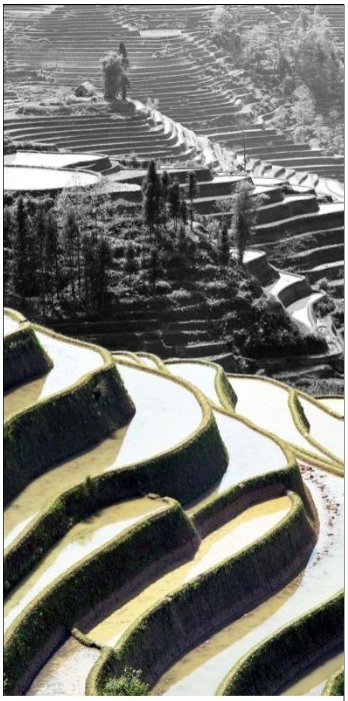
The equities rally could extend in the short term, but a more selective approach remains warranted over the long term. Equities staged an almost perfect V-shaped recovery in the aftermath of the Brexit-led sell-off. Strong momentum and supportive policies suggest global equities could rally further in the short term, but beyond that we remain much more selective. While greater earnings visibility in the US and relative stability in China are positives, the Brexit vote has raised uncertainty for UK and Euro area equities, possibly for an extended period.

The economic and political backdrop suggests more volatility ahead. The surprise UK vote to leave the EU has clouded the outlook for Europe. Global growth forecasts continue to be revised lower, notwithstanding improvements in the US. Recent events in Turkey also highlight the need to be selective in taking Emerging Markets (EM) exposure. Together, these events emphasise the need for a balance that offsets risky assets with income-generating and alternative strategies which offer protection during volatility.

The 'search for yield' is alive and well. Bond yields remain firmly lower amid expectations that policymakers could turn even more supportive. While inflation is a risk, lower-for-longer yields remain a tailwind for bonds and for most income-oriented assets. This backdrop adds considerable support for our multi-asset income strategy, but is also an additional factor behind our preference for taking EM exposure through USD-denominated government bonds.

Contents

Perspectives from our Global Investment Committee



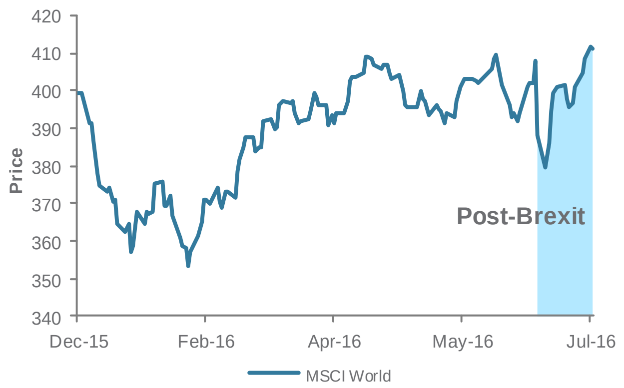
Q Is the equity pullback over?

A Despite falling almost 7% in the immediate aftermath of the Brexit vote, global equity markets have rebounded in an almost perfect V-shaped manner. This raises the question, whether a feared summer pullback swept by us faster than expected.

Improved momentum and the S&P500's break higher to a new record mean the short-term outlook for equities has improved, in our view. This means it would not surprise us if the remainder of the summer ends up being more positive than initially feared.

Figure 1: Global equities staged a V-shaped rebound over the past month

MSCI AC World Index



Source: Bloomberg, Standard Chartered

Beyond this time horizon, though, we would not lose perspective of the need for selectivity late in the economic cycle. The US remains our most preferred region, with the ongoing earnings season being key to the rally's continuation.

In Europe, though, we remain cautious for now. Negotiations about the UK's new relationship with the EU are likely to be prolonged, possibly casting a shadow on Euro area equities. The ongoing discussion on bailing out banks in Italy is another pain point. In an environment where it pays to be selective about equity risks, we believe the US and select EMs offer more attractive risk/reward tradeoffs.

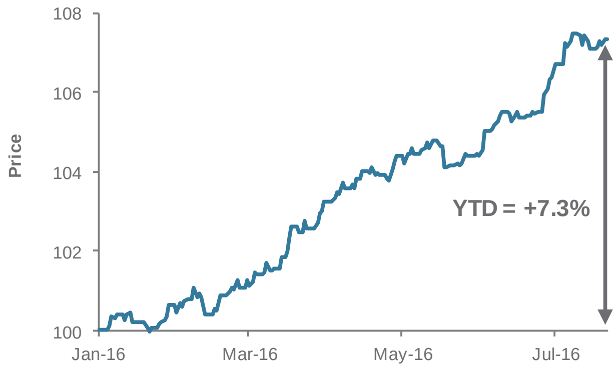
Q Is there any value left in bonds?

A We believe achieving balance in diversified investment allocations is particularly important in bonds. Our preferred area – US Investment Grade (IG) corporate bonds – has delivered strong gains mainly as a result of the sharp downdraft in US Treasury yields. While they remain one of our most preferred asset classes, the sharp yield move combined with the risk of a further unwind in stretched US Treasury positioning means we would await better entry levels before considering adding further.

On the other side of the balanced allocation, EM USD government bonds, in particular, appear to offer some value as well as a reasonable buffer against the risk of a rebound in US Treasury yields. Absolute yields are attractive at just over 5% and valuations remain inexpensive.

Figure 2: US IG corporate bonds have returned 7.3% YTD; we would wait for a better entry level before adding further

Barclays US Aggregate 144A Investment GradeTotal Return index



Source: Barclays, Bloomberg, Standard Chartered

Having said that, we continue to believe multi-asset income remains the best approach to generating yield today. Although bonds remain one part of this strategy, we believe it is still attractive to maintain exposure to a wide range of income-oriented assets amid an ongoing search for yield.

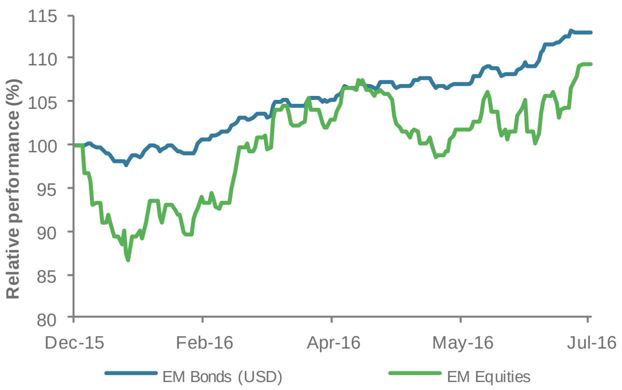
Q Are you becoming more constructive on Emerging Markets?

A We believe the outlook is improving, but in an incremental way. In Asia, policymakers continue to cut rates while China's growth has stabilised. The continuing commodity price rebound has been supportive of non-Asian Emerging Markets. Oil markets face an increasingly favourable supply/demand balance and recent risk events have improved the environment for gold, in our view. However, we remain less convinced in the sustainability of the rebound in industrial metals.

We would continue to strike a balance between chasing inflows into EM assets and acknowledging the risks that remain. Our preferred route to adding EM exposure continues to be EM USD government bonds, which we elevate this month to being one of our most preferred bond asset classes. EM local currency bonds may also be worth dipping one's toes in, but we would be more selective here. Within EM equities, we have a clear preference for Asia ex-Japan over other EM regions due to Asia's lesser commodity price sensitivity, the dominance of domestic demand in major economies and supportive central banks.

Figure 3: EM USD government bonds remain our preferred route to adding EM exposure at this time

EM USD government bonds (EMBI) vs. EM equities (MSCI EM)



Source: JP Morgan, Bloomberg, Standard Chartered

Q How should we view geopolitical risks?

A We believe continued geopolitical risks underscore the need to protect against drawdown risk. The Brexit vote and the attempted coup in Turkey created short, but sharp, volatility in financial markets; upcoming events such as negotiations in Europe on bailing out banks in Italy and the US Presidential election could create similar pullbacks.

The Brexit vote may have come as a surprise to markets, but as with the immediate market fallout, we expect the vote's impact to continue to be concentrated largely on UK and European assets. The path of Brexit negotiations from here is key – we believe the GBP still faces downside risks.

Recent events in Turkey are a risk to EM flows. Our main concern remains the currency, given the country's weak balance of payments and low FX reserves. A reversal, either due to further political uncertainty or due to a sharp drop in the currency, could increase risks for EM assets.

Trade ideas

Tactical opportunities

Amid volatile financial markets, an objective of our Global Investment Committee is to identify temporary dislocations that may offer a shorter term trading opportunity. This month, we make a start with a potential opportunity that we expect will do well, albeit on a shorter time horizon compared with our usual 12-month timeframe.

Trade – Buy Indonesia local currency bonds (3-month horizon)

Investment case:

- Absolute yield remains attractive (7% for a 5-year government bond, for example)
- Policy remains supportive, with potentially lower inflation leading to further rate cuts
- Indonesian bonds should benefit from continued capital flows to Emerging Markets (EM), which should support the currency

Risks:

- Significant currency weakness, reversal of EM capital flows, higher inflation

Figure 4: Indonesia local currency government bonds should be a key beneficiary of continued EM inflows

iBoxx ABF Indonesia local currency bond index, total returns unhedged

Source: Bloomberg, Standard Chartered

Investment strategy

A

Advanced economies are at different stages of the economic cycle. US expansion mature, but consumer spending to drive growth in 2016

D

Deflationary pressures to abate in Developed Markets due to gradually tightening labour markets and bottoming oil prices

A

Asia and Emerging Markets still dependent on China, which is transitioning towards consumer-led growth. Oil prices also key

P

Policies of central banks to remain supportive of growth, notwithstanding Fed tightening

T

Transition to late cycle likely to lead to higher volatility

Keeping our balance

- Equities fell sharply after the Brexit vote, before recovering equally quickly to new record highs even as bond yields trended lower. However, we would caution against confusing positive short-term momentum with our more cautious long-term view.
- The equities rebound could extend in the short term. However, we would stay selective, preferring the US. Risks to Euro area equities have risen further, in our view, but risks to select Emerging Markets (EM) may be reducing.
- EM USD government bonds offer the most attractive way to raise EM exposure, in our opinion. Our preference for US Investment Grade (IG) corporate bonds remains, but we would wait for better entry levels. We believe multi-asset income strategies remain the best way for pulling these views together in a continued ‘search-for-yield’ environment.

Equities rally could extend short term

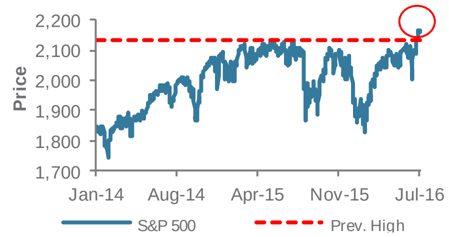
The post-Brexit equity market sell-off morphed very quickly into a global equities rally as key indices, including the S&P500, broke to new highs. This, together with an expected recovery in earnings in the coming quarters, means the rebound in equity markets could extend further in the short term.

However, we retain our long-term selectivity in equities. We would focus on the US, where the potential for a return to positive earnings growth remains most visible. Risks to EMs may also be reducing, though we would retain our focus on preferred markets in Asia, such as India, where domestic growth drivers are dominant. Our caution on Euro area equities has risen, as post-Brexit political risks could remain elevated for some time, while new risks (such as the possible bailout of banks in Italy) come to the fore.

Take EM exposure through USD government bonds

Figure 5: S&P500’s break to new highs means equity gains could accelerate short term

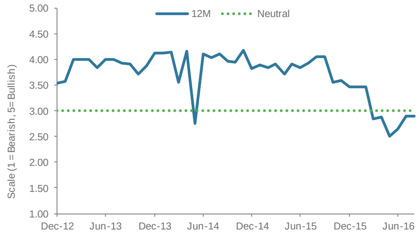
S&P500 Index



Source: Bloomberg, Standard Chartered

Figure 6: However, we remain more cautious on a 12-month horizon

SCB Investment Committee view on risk assets (higher score=more bullish)



Source: Standard Chartered

Investment strategy

It is tempting to chase the rebound in EM equities, especially as many commodity prices have remained well supported. While we acknowledge risks have reduced, we continue to believe bonds remain a more appropriate way to take EM exposure given the balance of risks. We see USD bonds of EM governments as offering the most attractive opportunity here; yields remain attractive at around 5% and valuations remain inexpensive. Local currency government bonds are another option, of course, but we believe the additional direct currency risk tilts the balance in favour of USD-denominated bonds.

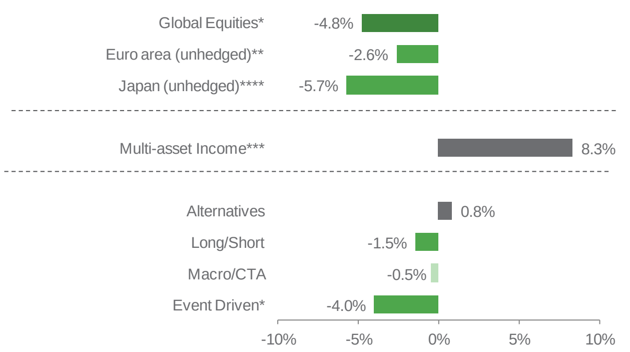
Multi-asset macro strategies deliver results

We continue to see a multi-asset income basket as an attractive way of bringing these themes together. Lower bond yields mean the hunt for yield continues to intensify; this is a positive environment for income-oriented assets.

However, the brief post-Brexit pullback was also an illustration of the value of complementing multi-asset income allocation with multi-asset macro strategies. Multi-asset macro strategies helped in buffering volatility in income assets. This characteristic, we believe, remains valuable for the remainder of this year, given the tendency for rising bouts of volatility late in the economic cycle.

Figure 7: Multi-income strategy remains a strong performer

Performance of A.D.A.P.T. since Outlook 2016***



* Closed on 25 February 2016; **FX-hedge removed as of 25 February 2016

*** For the period 11 December 2015 to 21 July 2016. Income basket is as described in the Outlook 2016: A year to A.D.A.P.T. to a changing landscape, Figure 38 on page 60, and revised in the Global Market Outlook, 28 March 2016; **** Closed on 25 March 2016;
Source: Bloomberg, Standard Chartered

Figure 8: Our Tactical Asset Allocation views (12m) USD

Asset class	Sub-asset class	Relative outlook	Start date*
Cash		Underweight ↓	July 2016
Fixed Income	Developed Markets Investment Grade government bonds	Underweight	Jan 2011
	Developed Markets Investment Grade corporate bonds	Overweight	Dec 2015
	Developed Market High Yield corporate bonds	Neutral	April 2016
	Emerging Markets USD government bonds	Overweight ↑	July 2016
	Emerging Markets local currency government bonds	Neutral ↑	July 2016
	Asia USD corporate bonds	Neutral	Feb 2016
Equity	US	Overweight	June 2016
	Euro area	Underweight ↓	July 2016
	UK	Neutral	April 2016
	Japan	Neutral	March 2016
	Asia ex-Japan	Neutral	Jul 2015
	Other EMs	Neutral ↑	July 2016
Commodities		Neutral ↑	July 2016
Alternatives		Overweight	Jun 2013

*Start Date - Date at which this tactical stance was initiated
Source: Standard Chartered

Macro overview

Key View

The Brexit vote has made an already cloudy outlook more uncertain. While its direct impact will be felt in the UK, the rest of Europe is also likely to be impacted

The Fed is likely to remain cautious

The ECB and BoE may boost stimulus; Japan may employ bolder fiscal measures

China is likely to persist with its policy fine-tuning to maintain growth

IMPLICATIONS FOR INVESTORS

US stable; Brexit stalks Europe

- In a reversal of fortunes, the US economy is rebounding from Q1's downturn, while Europe, where growth was holding up, looks set to be dragged down by uncertainties following the UK's unexpected vote to leave the EU.
- In Asia, Japan's outlook continues to be clouded by a strong JPY and weak global demand. However, China appears to have stabilised after months of stimulus. In Latin America, Brazil looks set to emerge from a recession by early next year.
- We expect the Fed to remain cautious for now, as policymakers study incoming data after the Brexit vote. The ECB and BoE, however, are likely to ease in the coming weeks as investor confidence has taken a hit. In Japan, there is growing expectation of bold fiscal measures after Abe's resounding Upper House election win.

Preparing for more aggressive stimulus in Europe and Japan

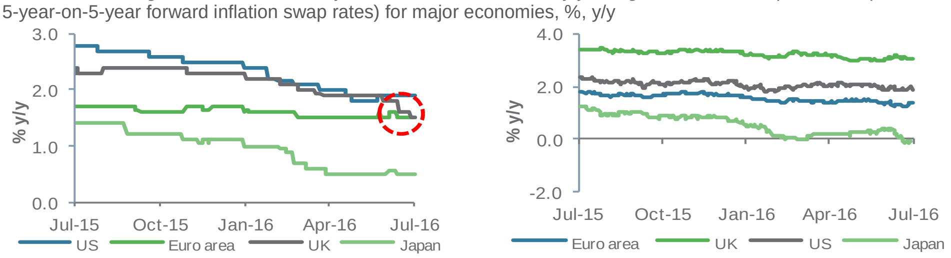
The Brexit vote has made an already cloudy world outlook more uncertain. While its direct impact is likely to be felt in the UK, as evidenced by the GBP's sharp devaluation and downgrades to the UK's growth forecast, the rest of Europe is also likely to be negatively impacted as investor confidence takes a hit. Japan, already weighed down by flagging global growth and disinflation, is likely to be dragged down further by Brexit uncertainties.

The US economy looks relatively stable against this increasingly uncertain backdrop. The consumption-led recovery there got a further boost from a strong rebound in the job market in June. However, incoming data will need to be closely watched for signs of a spillover from Europe. China, too, appears to have stabilised after several doses of stimulus, putting a floor under Asian and other Emerging Market (EM) growth prospects. Given this, we see the following policy implications:

- The Fed is likely to remain cautious, pending confirmation of a sustained recovery.
- The ECB and BoE may boost stimulus, while Japan employs bolder fiscal measures.
- China is likely to persist with its policy fine-tuning to maintain growth above 6.5%.

Figure 9: UK growth forecasts have been downgraded after the Brexit vote, while Japan's long-term inflation expectations have fallen below 0%, highlighting rising deflation risks to the economy

Consensus GDP growth forecasts of major economies for 2016, %, y/y; Long-term inflation expectations (based on 5-year-on-5-year forward inflation swap rates) for major economies, %, y/y



Source: Bloomberg, Standard Chartered

Macro overview

A nascent recovery in the US?

US economic data have surprised positively in recent weeks, led by a strong rebound in job creation in June and a recovery in manufacturing and services sector business confidence. Meanwhile, wage growth accelerated further, which should sustain the consumption-led recovery into Q3. The housing sector also remains a growth engine.

This year's recovery in oil prices has helped reduce stress in the energy and manufacturing sectors. However, the USD's rebound since June is likely to once again tighten financial conditions and curb price pressures at home and hurt export competitiveness, especially in the aftermath of the Brexit vote, which is likely to curtail European demand.

Although the improvement in US data and sustained wage increases have revived expectations of a Fed rate hike (Fed funds futures point to a 47% chance of a hike this year), we believe the Fed is likely to stay cautious, given the uncertainties at home ahead of the November Presidential election and geopolitical uncertainties. A wage-driven inflation spike remains a key risk to this benign outlook.

Euro area looks to ECB to stem Brexit damage

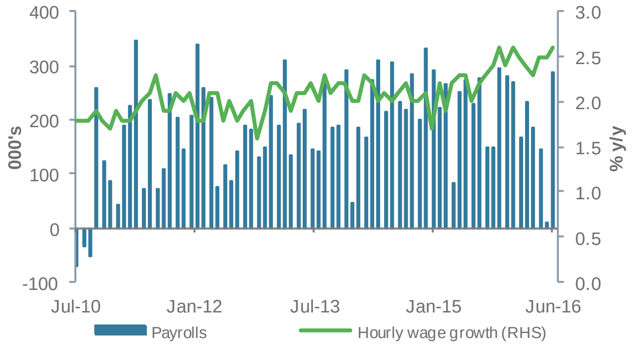
The Euro area outlook, which was holding up well amid global uncertainties in H1, appears to have taken a hit following the UK's vote to leave the EU. The earliest forward-looking data to arrive after the Brexit vote (Sentix Investor Confidence and ZEW Survey Expectations) suggest investor sentiment has taken a hit. Purchasing managers' indices for July will be the next focus.

Uncertainties around the political and trade-related impact of the Brexit vote add to the region's challenges as it struggles to manage the immigrant crisis. Disinflationary pressures are likely to increase if flagging business confidence affects growth. Against this backdrop, we believe the ECB is likely to ease policy further in the coming months.

Meanwhile, Italy's banking crisis continues to hurt business sentiment there. ECB President Mario Draghi backed the use of public funds to support banks saddled with bad loans, providing a boost to Italian bank bailout expectations.

Figure 10: US job growth rebounded sharply in June, while wages accelerated further

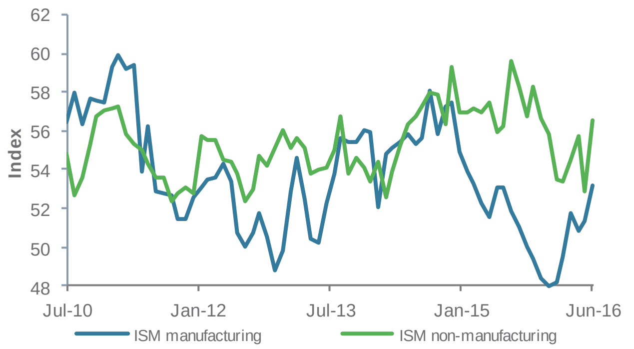
US non-farm payrolls, '000s; average hourly earnings, %, y/y



Source: Bloomberg, Standard Chartered

Figure 11: US manufacturing and services sector business confidence has rebounded in recent months

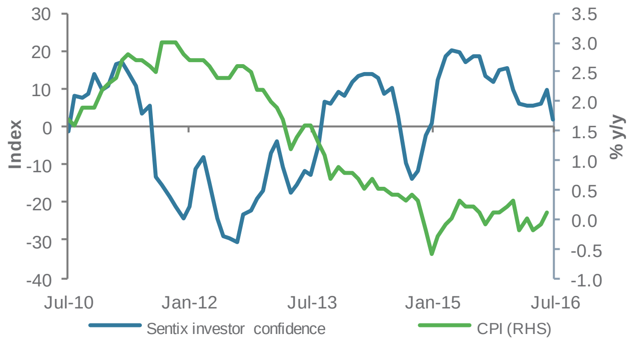
US ISM Manufacturing index and ISM Non-Manufacturing index



Source: Bloomberg, Standard Chartered

Figure 12: Euro area investor confidence has been hit by Brexit

Euro area Sentix Investor Confidence index; Euro area CPI, %, y/y



Source: Bloomberg, Standard Chartered

Macro overview

UK confidence hit by the Brexit vote

The UK economy had been faltering even before the Brexit vote. Early indications after the referendum to leave the EU suggest business confidence has been impacted. The GBP's sharp devaluation after the vote shows the economy's dependence on sustained capital inflows, which are needed to offset the structural trade deficit.

The earlier-than-expected formation of a new government under Prime Minister Theresa May alleviates domestic political uncertainties. Now the focus is likely to turn to when the government plans to formally start negotiations for a new trade deal with the EU. The talks are likely to last for at least a couple of years, prolonging uncertainty. Trade deals with other major economies will also be in focus.

The BoE refrained from easing policy at its 14 July policy meeting as it awaits more data. We expect the BoE to cut rates and start bond buying in the coming months. Inflation pressure from the weak GBP is likely to be temporary.

Japan's deflation risks put pressure on Abe

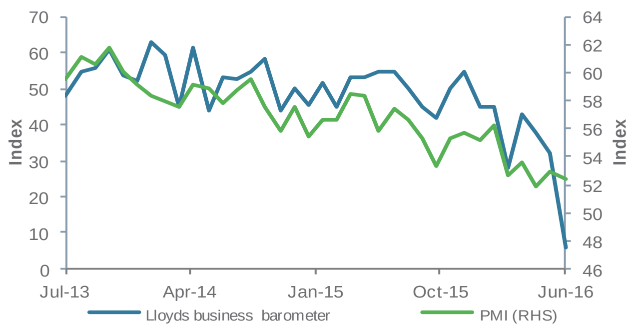
Japan's growth and inflation data weakened further as the strong JPY continued to hurt exports and manufacturing sectors and curbed domestic price pressures. Brexit uncertainties are likely to further impact Japan's external sector. The Tankan survey of companies in Japan showed further deterioration in outlook among small businesses, while long-term inflation expectations have fallen below 0%.

With monetary policy already stretched, there is growing expectations of a major fiscal policy boost. Prime Minister Shinzō Abe's comfortable victory in Upper House elections is likely to provide confidence for taking bold measures to revive growth and inflation. There is growing expectation that the BoJ may monetise or write off the government's debt; although such extreme measures are likely to be implemented only if the economy deteriorates further.

For now, we believe the government may unveil a fiscal spending package. The BoJ is also likely to broaden its asset purchase programme by including other assets such as more equities and REITs.

Figure 13: UK business confidence nose-dived after the Brexit vote

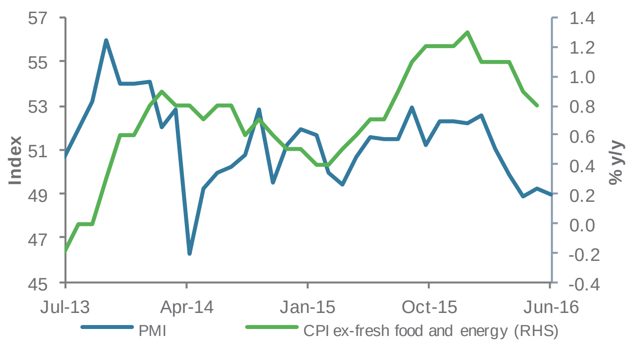
Lloyds' Business Barometer; UK PMI



Source: Bloomberg, Standard Chartered

Figure 14: Japan's business confidence indicator suggests weak growth, while core inflation has deteriorated further

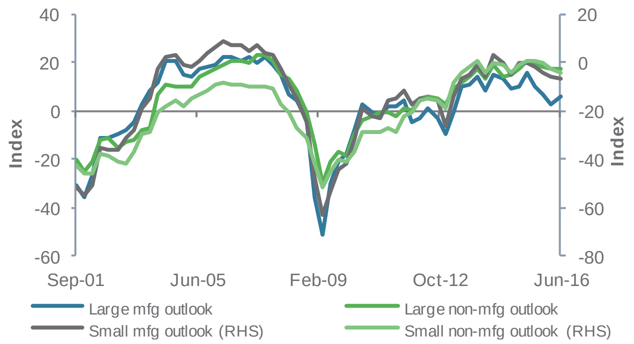
Japan's PMI; CPI ex-fresh food and energy, %, y/y



Source: Bloomberg, Standard Chartered

Figure 15: Japan's Tankan survey shows further deterioration in business outlook among small companies

Tankan survey of business outlook for Q3 among Japan's large and small manufacturing and services companies



Source: Bloomberg, Standard Chartered

Macro overview

Asia – China stabilises after stimulus

China's economy, a key driver of Asian growth, remained stable, with annual growth in Q2 matching Q1's 6.7%. Latest data for June show continued stability in manufacturing and services sectors after months of fiscal and credit stimulus measures. However, growth in real asset investment continued to slow, reflecting the government's cautious stance against adding to excess capacities, especially in the face of surging property prices this year. Meanwhile, exports continued to contract amid sluggish global demand. We expect the authorities to fine-tune stimulus measures in H2 to maintain growth within the 6.5-7.0% target for the year.

India's economy is likely to benefit from an above-average monsoon as increased food production boosts rural income and helps keep inflation (which has been rising in recent months) in check. Sustained progress of the monsoon is critical, though, as excess rains could lead to crop damage. Subdued inflation would enable the new RBI governor who will take charge in September to cut rates further.

Elsewhere in Asia, Indonesia has the scope to cut rates further amid low inflation and continued strength in the IDR. South Korea and Taiwan, which have cut rates this year, may also see further policy easing as continued contraction in exports adds to domestic disinflationary pressures.

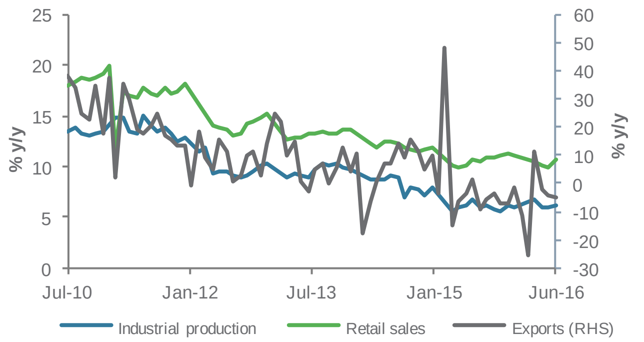
Brazil continues to recover from recession

Brazil's economy showed signs of stabilisation as confidence gradually returned under the new government of Acting President Michel Temer. Business confidence appears to have bottomed, while inflation has continued to decline after peaking at 10.7% in January. Surveys showed Brazilians are more confident about the outlook for the economy.

Although President Dilma Rousseff's impeachment trial in August remains an uncertainty, the growing support for Acting President Temer (his ally won a key vote to become the speaker of the lower house of the parliament) is positive for investor sentiment. Consensus forecasts suggest the economy is likely to stabilise by the end of the year, and start growing again by early next year. Falling inflation should also enable the central bank to cut rates further.

Figure 16: China's industrial production and retail sales have stabilised, but exports continue to contract

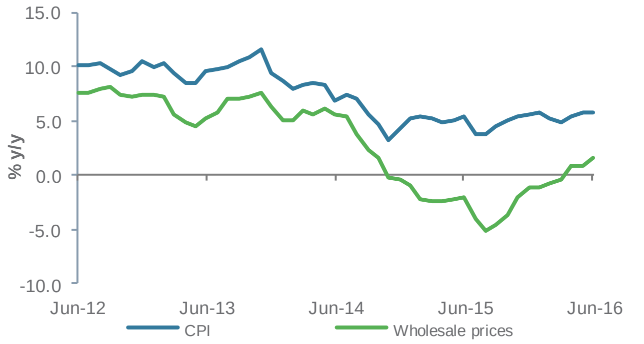
China's industrial production and retail sales, %, y/y; Exports, %, y/y



Source: Bloomberg, Standard Chartered

Figure 17: India's inflation pressures are rising again, but a good monsoon may help cap price pressures

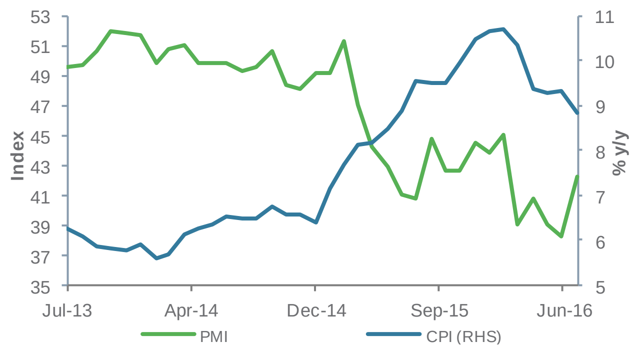
India's consumer and wholesale price inflation, %, y/y



Source: Bloomberg, Standard Chartered

Figure 18: Brazil's inflation appears to have peaked while business confidence shows early signs of a recovery

Brazil's PMI; Consumer inflation, %, y/y



Source: Bloomberg, Standard Chartered

Bonds

Key View

US IG corporate bonds and EM USD government bonds are our most preferred sub-asset classes

US IG corporate bonds and EM USD govt bonds are our top picks

Maintain exposure to HY bonds to generate income

Take EM exposure through USD-denominated bonds

IMPLICATIONS FOR INVESTORS

Hunt for yield continues

- Bonds remain one of our most preferred asset classes. Despite the strong rally YTD, we continue to like them both as a source of income and for their defensive quality.
- We largely prefer corporate bonds over government bonds, with US Investment Grade (IG) corporate bonds being the top pick in this space. We also favour Emerging Markets (EM) USD government bonds as an alternative to US IG corporate bonds and to balance quality and income.
- While we continue to prefer taking EM exposure through USD-denominated bonds, reduced headwinds to EM currencies mean risks to EM local currency bonds may be falling.

Government bonds – Developed Markets

The strong rally in G3 government bonds has pushed yields to multi-decade lows. Post-Brexit, markets expect further easing from major central banks, as they try to support their economies. While this could result in further price gains, we believe the risk/reward in government bonds is not compelling. The low absolute yields leave very little buffer; even a small increase in yields can lead to a price decline greater than the coupon on offer. An uptick in inflation remains a key risk as it could lead to a less supportive policy and subsequently higher bond yields.

Additionally, markets have started to debate the possibility of a fiscal stimulus by governments. This would be negative for bonds as more bond issuance by governments to finance the fiscal stimulus is likely to lead to declines in bond prices, central bank purchases notwithstanding. Thus, we continue to prefer taking exposure to high-quality bonds through IG corporate bonds – see the section on corporate bonds. On balance, we continue to prefer maintaining a 5-7-year maturity profile for USD-denominated government bonds.

Figure 19: Our preferred areas within bonds

Bond Asset Class	Preference	Yield	Value	FX
Investment Grade corporate bonds in Developed Markets (DM)	Preferred (US over Europe)			
USD government bonds in Emerging Markets (EM)	Preferred			
USD corporate bonds in Asia	Core holding			
High Yield corporate bonds in Developed Markets	Core holding (US over Europe)			
Local currency government bonds in EM	Core Holding			
Investment Grade government bonds in DM	Least preferred			

Traffic light signal refers to whether the factor is positive, neutral or negative for each asset class.

Source: Standard Chartered

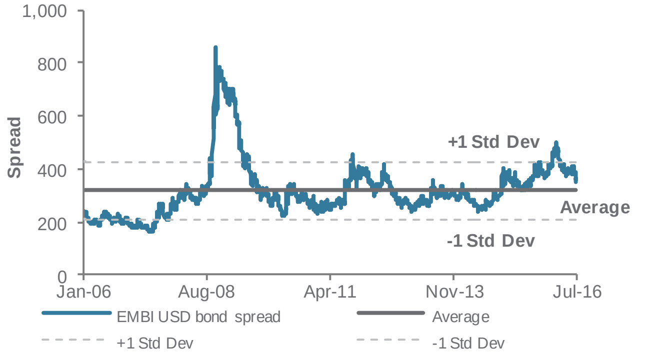
Bonds

Government bonds – EM USD government bonds

EM USD government bonds are now one of our most preferred bond asset classes. They remain our most preferred choice within the government bonds category and we believe they are likely to outperform G3 government bonds.

Figure 20: EM USD government bonds remain inexpensive

EM USD government bond spreads

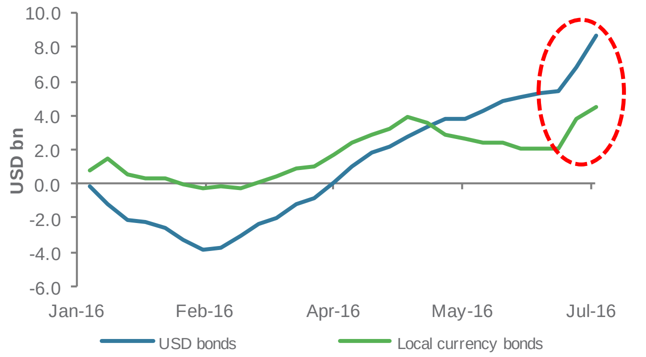


Source: Bloomberg, Standard Chartered

Following Brexit, the sharp decline in bond yields in Developed Markets (DM) is likely to further intensify the ongoing hunt for yield. EM USD government bonds are likely to benefit in our view, as they continue to offer an attractive yield of around 5.1% – in contrast to negative yields in Japan and parts of Europe.

Figure 21: Demand for yield has led to strong inflows into EM bonds

Cumulative YTD inflows into EM Hard Currency and Local Currency bond funds



Source: EPFR, Standard Chartered

Additionally, the delay in Fed hike expectations is supportive of EMs, which will benefit from less strength in the USD. Indeed, EM bonds have seen inflows accelerate following the Brexit vote results.

Lastly, EM USD government bonds remain one of the few asset classes where valuations are not expensive. Nonetheless, a sharp decline in commodity prices and any currency weakness remain the key risks. Additionally, the structural problems and the declining credit quality for EM countries remain concerns. We prefer to maintain diversified exposure within EM USD government bonds.

Corporate bonds – DM Investment Grade corporate bonds

US IG corporate bonds remain one of our most preferred areas. We prefer to take high-quality bond exposure here and continue to like the yield premium on offer over US Treasuries.

The recent strong performance can be attributed to both rising valuations and the decline in US Treasury yields, leading US IG yields to drop below 3%. We continue to like their government-bond-like behaviour in volatile markets, but believe investors should wait for better entry points before adding further.

Figure 22: Strong performance in US IG corporate bonds this year has led to lower yields

US IG corporate bonds yield

Source: Barclays, Bloomberg, Standard Chartered

Bonds

Corporate bonds – DM High Yield corporate bonds

We continue to believe US High Yield (HY) corporate bonds should remain a core holding within a well-diversified allocation. Though they offer an attractive yield of around 6.6%, valuations have crept up during the recent rally. A pullback in oil prices remains the main risk.

Corporate bonds – Asian credit

Asian corporate bonds have remained remarkably resilient over the course of 2016, and we believe this is likely to continue, going forward. Despite the marginally expensive valuation, we continue to expect Asian corporate bonds to be supported by (i) higher credit quality compared to other EM corporate bonds, (ii) favourable demand-supply balance and (iii) strong demand from local buyers. While technicals are more dominant in the short term, in the medium term, we believe fundamentals dictate returns. The aggregate credit quality is on a gradual decline and, hence, we continue to prefer the IG component over HY bonds.

Figure 23: Asia credit has delivered stable returns this year

Cumulative total returns for Asia Credit, US IG corporates, US HY corporates. Rebased to 100 as of 1 Jan 2016

Source: Bloomberg, Barclays, Standard Chartered

EM local currency bonds

We upgrade EM local currency bonds to a core holding, on the back of a more sanguine outlook for EM currencies. Additionally, easy monetary policies across DMs provide EM policymakers the opportunity to cut interest rates to boost growth. This would be a positive for EM local currency bonds. However, we favour taking selective exposure to EM local currency bonds (see Indonesia local currency bonds on page 6).

As we have highlighted in the past, currencies remain an important driver of returns for EM local currency bonds. However, we believe the currency outlook has become more favourable after the Brexit vote due to three factors:

- Monetary policy in DMs is likely to remain accommodative for longer. This is likely to lead to less USD strength. In our opinion, this reduces the risk of a sharp sell-off in EM currencies.
- Many EM central banks have used the recent currency strength to increase their foreign reserves and prevent a significant currency appreciation. Higher reserves mean EM currencies are less vulnerable to investor outflows.
- As shown in the chart on the previous page, the search for yield has led to strong inflows into EM bonds that are supportive of both bond prices and currencies.

However, direct currency exposure is the key risk that holds us back from being more bullish on EM local currency bonds.

Figure 24: Local currency bonds offer attractive yields for most local investors

Country	Current 10y yield	Currency view*	Investor flows**
India	7.28%	🟢	🟢
Indonesia	7.07%	🟢	🟢
Malaysia	3.53%	🔴	🟢
Philippines	3.23%	🟡	🔴
S. Korea	1.40%	🟡	🟢
Thailand	1.92%	🟡	🟢

*Standard Chartered Wealth Management currency views. **Bloomberg Foreign Portfolio flows, greater than USD 100mn over 1month.

Traffic light signal refers to whether the factor is positive, neutral or negative for each country. Source: Bloomberg, Standard Chartered.

Equities

Key View

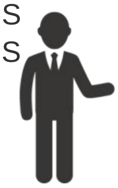
US equities may outperform other developed markets. Within Asia, we prefer India and Korea

We are cautious on global equities

Non-Asia EMs have outperformed YTD and may continue to do so

Earnings in US energy sector are likely to turn positive in 2016

IMPLICATIONS FOR INVESTORS



Preparing for uncertainty

- Global equities have risen 5% YTD, with Emerging Markets (EM) continuing to outperform Developed Markets (DM).
- While stimulus efforts have helped China-related risks abate for now, upcoming risks such as the US Presidential election, the Fed cycle and political uncertainty in the EU mean further volatility may be forthcoming. In such an environment, we remain cautious on equities, preferring defensive sectors over cyclicals.
- Within equities, we maintain our preference for US equities, given their relative stability and a likely return to positive earnings growth. Brexit's full impact on earnings and profit margins remains unclear; this continued uncertainty is likely to cloud both UK and Euro area equity markets.
- In Asia ex-Japan, we favour India and Korea. India is exhibiting positive earnings momentum, which should be further supported by fiscal stimulus, while Korea continues to perform strongly despite weakness in China, its largest export market.

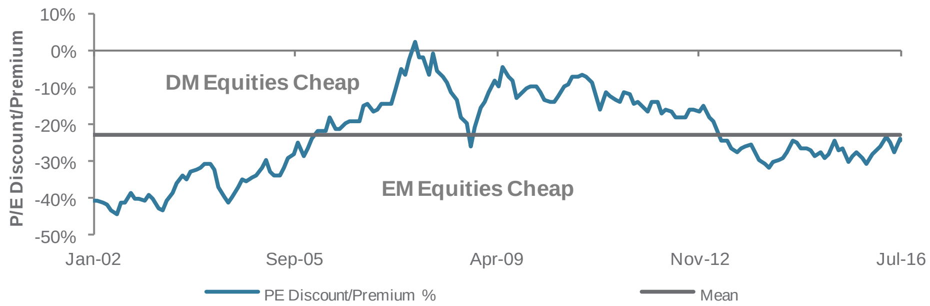
Investing in a low-growth environment

Taking into account the associated risks, as we progress through a late-cycle environment, equity returns could still be positive, but volatility may not make it worth the risk. The past month's heightened volatility in global equity markets has served to reinforce our cautious stance.

Looking ahead, corporate earnings are expected to improve in the US, but earnings revisions remain negative in the Euro area and Japan. EM earnings should be supported by a continued recovery and/or stabilisation in commodity prices. Short term technicals imply the market rally could continue; however, in the long term we would be more selective.

Figure 25: Despite their outperformance, EM equities still trade at a significant discount to DM equities

MSCI EM 12-month forward PE/MSCI DM 12-month forward PE



Source: FactSet, Standard Chartered

Equities

US – expecting a return to earnings growth

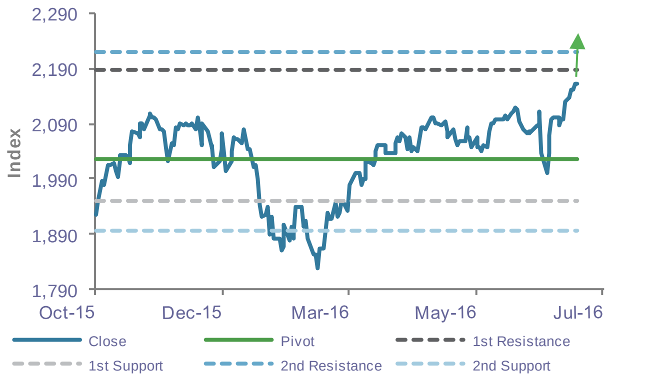
We remain positive on US equities, noting the S&P500 has broken through a key resistance and continues to reach new highs. Investor sentiment has improved with growing expectations that corporate earnings growth will return to positive territory in H2. Q2 16 earnings are expected to have decreased 5% y/y, marking the fourth consecutive quarter of earnings decline, led by the energy sector. However, earnings are forecast to recover in Q3 to register 2% y/y growth. Overall, US firms are expected to record modest positive earnings growth for 2016 and this has helped support the market.

Expectations of only a moderate Fed hiking cycle continue to hold back financial sector earnings, with US bond yields reaching historical lows over the past month. Low rates undermine bank margins and reduce investment income for other financials such as insurance. However, not all sectors stand to lose; as other investment yields decrease, the outlook for dividend income and REITs improves.

The negative impact of a stronger USD on technology firms' earnings looks to have abated as the sector is poised to record 2% earnings growth in Q3 16 versus a 6% decline in Q2. We remain positive on the sector, as large cash balances and strong balance sheets support increased shareholder returns via share buybacks and dividends, as well as value-accretive M&As.

Figure 26: US equity markets continue to climb higher

S&P500 index has broken a key resistance to reach new highs



Source: Bloomberg, Trading Central, Standard Chartered

Euro area – uncertainty premium to stay

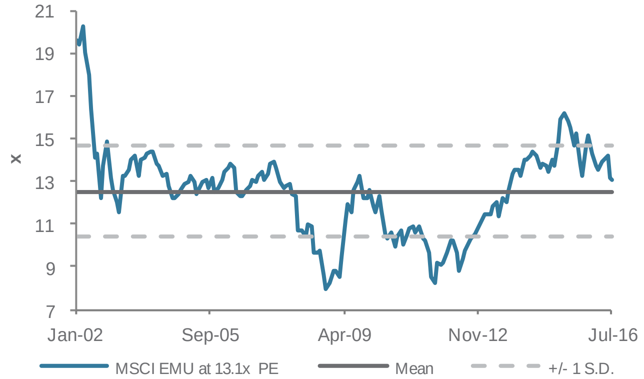
We are increasingly cautious on Euro area equities. As investors begin to digest the implications of the Brexit vote, there has been increasing concern over what this means for Euro area earnings, with expectations of slower economic growth, mitigated by a depreciating currency. The year has been punctuated by anxiety over a possible banking crisis in Italy, and these issues, together with rising apprehension about the stability of the EU itself, have served to put downward pressure on equity markets. The uncertainty stemming from these issues is unlikely to abate in the near term and has the potential to negatively impact equity markets.

Corporate earnings are expected to have fallen 5% y/y in Q2 16, but we believe earnings growth estimates have yet to reflect the heightened risks outlined above. Consensus estimates are still for over 4% earnings growth in 2016, slightly above the 5-year historical average, but nearly 14% y/y earnings growth in 2017. This is despite ongoing negative earnings revisions. This, in our view, looks overly optimistic.

Equity valuations have been falling in the Euro area since 2015, and at a PE of 13.1x 12-month forward consensus earnings, Euro area equities are still trading above their long-term average of 12.5x. Given elevated risks, we see further potential downside to valuations as investors demand a higher risk premium.

Figure 27: Euro area valuations are decreasing towards historical mean

MSCI EMU 12-month forward PE

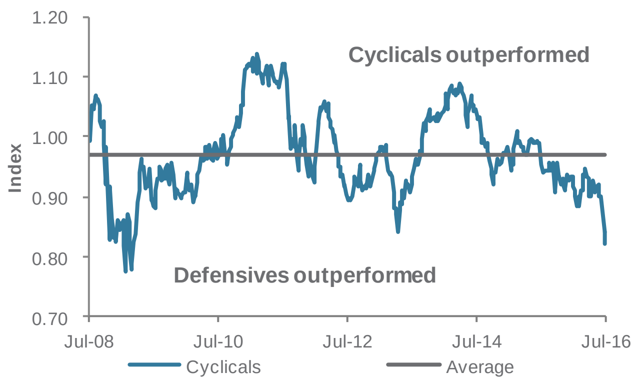


Source: FactSet, Standard Chartered

Equities

Figure 28: Euro area defensive sectors have outperformed cyclical sectors

MSCI EMU cyclical sector performance/defensive sector performance



Source: FactSet, Standard Chartered

As the environment looks increasingly challenging, we keep to our key preference for defensive sectors relative to cyclicals. The consumer staples sector has performed particularly well over the past quarter. Many large consumer sector firms are multinationals that derive their revenue from outside the Euro area and these should see further support in earnings from a weaker EUR.

Non-Asia EMs – a commodity story

We have become cautiously positive on non-Asia EMs as we are less bearish on the outlook for commodities. Latin America and Russia, in particular, have seen a significant rebound in their equity markets as oil and industrial metal prices rallied from their 2015 lows. The global energy sector has posted a 16% YTD gain, while the metals and mining sector has risen by over 40% YTD, helping the significant outperformance in Russia and Brazil. They have been the two top performing markets this year, both up 23% in local currency terms.

The recovery in oil and metal prices has helped lift margin and earnings expectations. Russia is a major exporter of crude oil and gas, and the stabilisation in crude oil and natural gas prices over the past quarter has helped fuel its equity market. Brazil has been buoyed by a 29% YTD rise in prices of iron ore, its top export product, which has risen to above $50/mt from just $40/mt earlier this year.

The spike in consensus earnings growth expectations, as earnings revisions have returned to positive territory in Latin America and across other countries, has helped in driving a stock market rally across non-Asia EM countries. This has precipitated a sharp expansion in PE multiples, with LatAm now trading at a PE of 14.5x 12-month forward consensus earnings, higher than during the commodity boom of 2009.

We see limited opportunities for further significant upside in energy prices, given current elevated inventory levels. We are less constructive on industrial metal prices given an overall lower global growth outlook. This means that although we have become increasingly positive on non-Asia EMs, we would need to see further improvement in commodity demand dynamics before becoming more bullish.

Figure 29: Non-Asia EM net margins have largely tracked commodity prices

MSCI non-Asia EM net margins compared to the CRB index

Source: Bloomberg, Standard Chartered

Equities

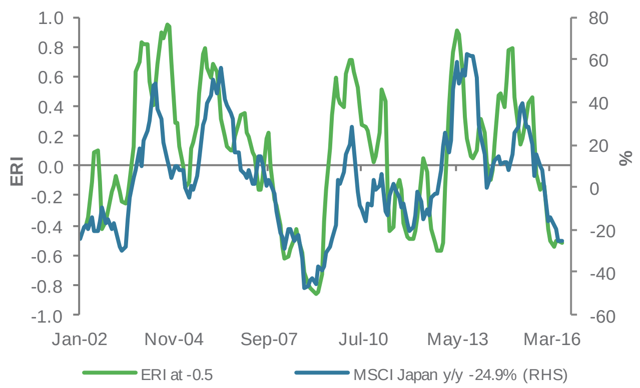
Japan – ongoing decline in earnings revisions

Japan has been the worst performing equity market on a YTD basis, falling 22% in local currency terms over the period. We remain cautious on the outlook for Japan equities. Despite market expectations for the BoJ to ease policy further, the growth environment remains weak, exacerbated by a strong JPY, which has appreciated by over 13% YTD against the USD.

This, in turn, has driven consensus earnings revisions lower for companies in Japan and has underpinned the underperformance of large-cap stocks, which derive more of their revenue offshore and are, therefore, impacted by currency translation losses. In contrast, small-cap companies are less exposed to currency risk as they are more leveraged to the local economy.

Figure 30: Japan's equity market performance is in line with declining earnings revisions

MSCI Japan y/y performance and earnings revisions



Source: FactSet, MSCI, Standard Chartered

At 12.3x 12-month forward earnings, Japan's equity market valuations are the lowest across DMs and are at a significant discount to their historical average of 17.2x. However, the outlook for investors remains challenging as further JPY strength cannot be ruled out in the current uncertain global environment, given its status as a safe-haven currency. Risk-reward dynamics look poor, where a weaker JPY would be positive for equity markets, but an equity rally may see inflows that could contribute to JPY strength.

Asia ex-Japan – new economy drives earnings expectations in China

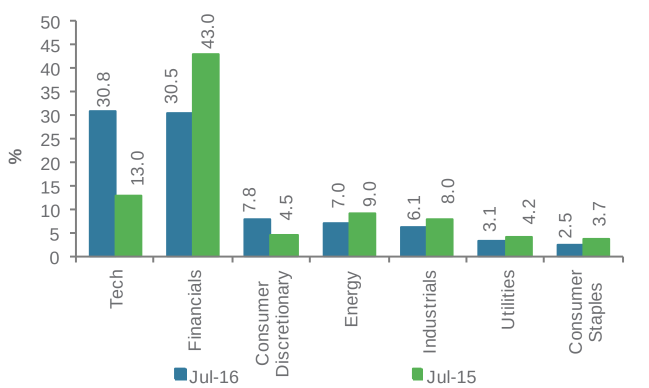
We remain positive towards Asia ex-Japan equities. Some countries within the Asia ex-Japan region, such as Indonesia and Malaysia, are net producers and stand to benefit from rising commodity and oil prices. As prices have stabilised, so have their currencies, which look to have bottomed in the absence of a USD rally. Stable currencies should help stem capital outflows from the region and allow for recovery in corporate balance sheets.

Earnings revisions for Asia ex-Japan have shown an uptick over the past quarter, most notably in China and India, which have seen strong positive earnings revisions since May. China's earnings growth expectations have been driven by strong expected growth in 'new economy' sectors such as IT, which now have a higher weight in the MSCI China index.

In India, rising consensus earnings forecasts are a result of an improved macroeconomic outlook. India's domestically focused economy and equity market should help buffer it from a weaker global growth outlook; further fiscal stimulus, especially measures encouraging private sector investment, should provide an additional tailwind. India remains our most preferred market within Asia; although valuations look stretched, it is expected to provide investors a higher return on equity compared to other countries within Asia.

Figure 31: The weight of new economy sectors in the MSCI China index has increased

MSCI China index change in sector weights



Source: MSCI, Standard Chartered

Commodities

Key Views

Gold could see further upside; oil prices to gradually recover; industrial metals continue to face supply headwinds

We are modestly constructive on oil prices

Gold could see further upside to USD 1,400 in the short term

Do not favour broad-based exposure to industrial metals

IMPLICATIONS FOR INVESTORS

China's stability key

- We expect gold prices to settle in a new range, trading between USD 1,250 and 1,400 in the short term (three months) amid lower interest rates globally.
- We believe oil prices have bottomed, and may trade around USD 45-55/bbl in the short term, before eventually moving higher.

Gold back in fashion

We expect commodity prices to continue to consolidate in the months ahead, as some major headwinds, including China growth risks, significant overcapacity and a stronger USD, have abated somewhat. Within commodities, we expect gold and energy prices to outperform industrial metals.

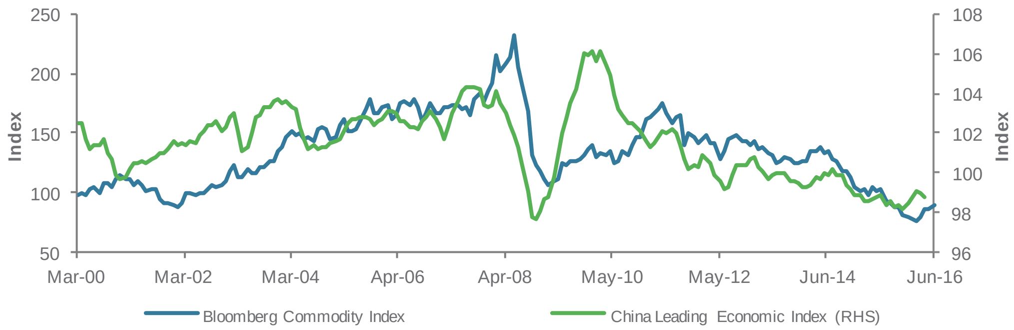
We are more constructive on gold given depressed yields globally, and like it as a hedge late in the current economic cycle and against unforeseen negative economic and political developments. The main downside risk to our outlook on gold is a significantly steeper Fed rate hiking path than what markets currently expect and a quick resolution of post-Brexit concerns.

In energy, while inventories still remain elevated, we expect the process of rebalancing to continue. Given current rates of US production declines, we believe prices are likely to gradually move higher in H2 16, but remain capped around USD 60-65/bbl this year. In contrast, persistent supply declines have not been forthcoming in the industrial metals space as margins remain attractive, with plenty of spare capacity.

Key upside risks to our commodity outlook are stronger-than-expected producer cutbacks and a weaker USD. Downside risks include deterioration in China's growth outlook, more aggressive Fed hikes and increased financial market volatility amid political uncertainty in Europe.

Figure 32: Stabilisation in China's growth outlook limiting downside in commodities

China's Leading Economic Index and Bloomberg Commodity Index



Source: Bloomberg, Standard Chartered

Commodities

Crude oil: Gradually moving higher

We expect crude oil prices to gradually recover through the year, but remain capped at USD 60-65/bbl. Our bias is to gain exposure to oil on any pullback. In our view, a converging supply-demand gap is likely to favour higher prices in H2 16. US production has continued to decline, although inventory levels remain high. Nonetheless, we do not believe this process of rebalancing is likely to be smooth. For example, most recently, crude oil prices have come under pressure as US gasoline inventories have been higher than expected and crude oil from facilities in Canada and Nigeria is now entering the market after a temporary halt.

On the other hand, oil demand has remained resilient in the face of modest economic growth. The IEA has also revised crude oil demand continuously higher in recent months.

Gold: More constructive

Gold is expected to trade in the USD 1,250-1,400 range over a three-month period. We expect lower interest rates (outside the US), moderately higher US inflation and increased safe-haven demand amid renewed political uncertainty in Europe to be supportive of gold. In our view, one scenario for sustained gains in gold could be a significant slowdown in the US, prompting the Fed to move towards a neutral or easing policy. Moreover, continued negative impact from the recent UK vote could also allow gold to rally significantly.

However, gradual Fed rate hikes should cap prices. A more aggressive Fed hiking cycle would, of course, be negative.

Industrial metals: Further rally unlikely

We expect any broad upside in industrial metals to remain limited. While China's growth remains stable, areas related to industrial metal demand, such as fixed asset investment, have shown signs of further deterioration. This is likely to put further pressure on metals such as copper. While the supply-demand picture is slightly better in case of aluminium, zinc and nickel, we observe any pick-up in prices has been met with a quick increase in production, given still-healthy margins and significant spare capacity.

Outlook for key commodities

Commodity	Summary of key views
Crude Oil	Upside likely capped at USD 60-65/bbl
Gold	Bullish within commodities; USD 1,250-1,400 range in the short term
Industrial Metals	Bearish within commodities; expect aluminium, zinc, nickel to outperform copper and iron ore

What has changed – Oil

Factor	Recent moves
Supply	Higher-than-expected US gasoline inventories and resumption of output from previously shut facilities in Canada and Nigeria has increased supply
Demand	Demand remains resilient
USD outlook	USD remains in consolidation mode

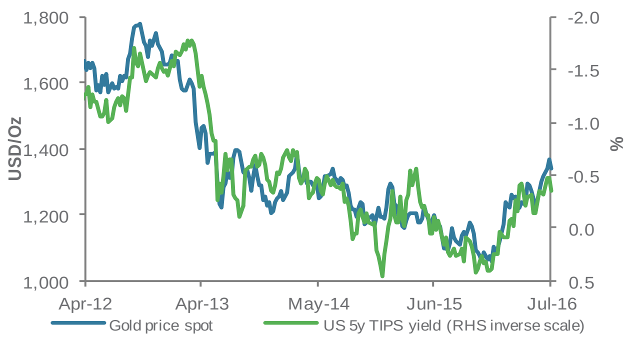
What has changed – Gold

Factor	Recent moves
Interest rate expectations	Fed rate hike expectations have been scaled back – nominal yields have fallen globally post-Brexit
Inflation expectations	Continue to decline outside the US
USD outlook	USD remains in consolidation mode

Source: Standard Chartered

Figure 33: Gold has rebounded this year amid falling inflation adjusted bond yields (using TIPS yield as proxy)

US 5year TIPS yields (inverted) and gold prices



Source: Bloomberg, Standard Chartered

Alternative Strategies

Key View

Global macro and long/short strategies demonstrated their value during recent volatility. We remain positive

Global macro strategy offers diversification

Equity long/short a substitute for long-only

Managing volatility is a key focus

IMPLICATIONS FOR INVESTORS

Able diversifier

- Alternative strategies remain one of our most preferred asset classes. Performance during the recent post-Brexit volatility reinforced their value as a diversifier.
- Global macro strategies were responsible for much of this; we continue to see them as key to managing drawdown risks in the remainder of the year.
- We maintain our preference for equity long/short strategies, especially as a substitute for long-only strategies.

Global macro strategies demonstrate their value

Post-Brexit volatility in equity markets provided yet another opportunity for global macro strategies to demonstrate their value as a diversifier. Global equities fell by almost 7% during the brief sell-off, but global macro strategies were about flat. CTA strategies, a trend-following component, have returned approximately 3.9% since the Brexit vote.

We continue to believe macro strategies offer an attractive proposition as a diversifier in a well-constructed investment allocation. This is likely to come from both discretionary strategies and trend-following CTA strategies.

Long/short strategies as a substitute for equity exposure

Equity long/short strategies offer a useful alternative to long-only equity exposure. The value of such an approach was once again on display amid the Brexit volatility – the strategy generated positive returns from pre-Brexit levels, while suffering only a 3.1% drawdown in the immediate aftermath of the Brexit vote (compared with an almost 7% decline for global equities).

While the strategy may underperform long-only equities if markets continue to rally in the short term, our greater caution over a longer time horizon means we prefer equity long/short strategies as a substitute for long-only equities exposure.

Our preferences within alternative strategies

Sub-strategy	Our view
Equity long/short	**Positive:** Attractive substitute to long-only equities in volatile markets
Relative value	**Neutral:** Volatility has increased opportunities, but liquidity challenging
Event-driven	**Neutral:** M&A activity a positive, but vulnerable to broad market volatility
Credit	**Neutral:** Volatility/sector-stress positive for long/short, but defaults are a risk
Global macro	**Positive:** Most preferred sub-strategy as it offers diversification amid volatility
Commodities	**Neutral:** Rising oil prices may be supportive
Insurance-linked	**Negative:** Insurance losses below average in 2015, which could reverse

Source: Standard Chartered

FX

Key View

USD likely to maintain its 2016 range, short of a significant catalyst from the Fed or China

EUR to remain largely within the 1.05-1.15 range

GBP to see further downside on political and economic uncertainty

AUD likely to remain above its 2016 low in a stable China scenario

IMPLICATIONS FOR INVESTORS

Some differentiation at play

- We expect the USD to remain largely range-bound despite a significant scale-back in Fed rate hike expectations. However, we expect further gains against the GBP. The EUR is likely to remain in the 1.05-1.15 range vs. the USD. We would not expect the JPY to be significantly higher from current levels.
- The USD may gain modestly against the AUD, CNY and SGD, but may trade more range-bound against most other Asia ex-Japan currencies. Overall, we expect the USD to maintain 2016 ranges against Asia ex-Japan currencies, though the CNY is expected to set new lows.

USD to continue trading sideways

- We expect the USD to remain broadly stable over a 12-month horizon, trading within its 2016 range. The USD has been stable this year as interest rate differentials have not changed much owing to a fairly correlated fall in yields across Developed Markets (DM).
- Going forward, we believe USD gains may not extend for two reasons. First, USD strength might be self defeating; should the USD continue to rally, the Fed is more likely to delay rate hikes. Second, the Brexit vote is likely to make the Fed even more cautious, potentially further delaying rate hikes. This may keep US yield differentials from rising enough to justify USD strength.
- We also believe the USD is unlikely to suffer extended weakness for two reasons. First, most major central banks, including the ECB, BoJ, BoE and PBoC, are still contemplating additional easing measures. Second, without a significant upside growth surprise from China and Emerging Markets (EM), the USD could remain supported amid limited broad-based capital flows towards EMs.

Figure 34: US interest rate differentials have not risen significantly, keeping USD gains in check

USD index weighted interest rate differentials and USD index (DXY)

Source: Bloomberg, Standard Chartered

FX

EUR: Likely to maintain its range

The EUR is expected to largely trade in the 1.05-1.15 range over the next three months; given current momentum, a move further towards the lower end can be expected. Three factors are likely to limit upside in the EUR. First, the Fed remains in a gradual hiking bias. Second, the ECB remains focused on monetary easing. Third, political concerns and uncertainty in the aftermath of Brexit are likely to increase capital outflows from the Euro area. Having said that, an EUR downside below 2015 lows is unlikely given a cautious Fed and a range-bound USD. A key risk is greater than expected political stress in the Euro area.

JPY: Limited further gains

We do not believe risk-reward favours further gains in the JPY. Thus far, the JPY has benefited significantly from safe-haven demand following the UK referendum vote. However, we believe there is growing concern in Japan's policy circles about JPY strength and significant unconventional policy easing measures (both fiscal and monetary) can be expected. Although policy easing may limit JPY strength, it may not be enough to weaken the JPY to 2015 levels. We would need a significant pick-up in Japan's inflation expectations before any meaningful JPY weakness can be expected.

GBP: No bottom in sight yet

Following the UK's decision to leave the EU, we see a number of risks that could drive additional GBP weakness. First, an economic slowdown may push the BoE towards policy easing, narrowing rate differentials. Second, concerns regarding the UK's record current account deficit are likely to be renewed amid risks of significant capital flight. Third, additional political stress could further weaken sentiment. We would look for clarity on the following areas before calling a bottom: first, clarity on the new economic engagement with the EU; second, guidance from the BoE on policy; and third, the economic impact of the Brexit vote.

What has changed – G3 currencies

Factor	Recent moves
Interest rate differentials	Yields across major economies have fallen along with US Treasuries, leading to little change in yield differentials
Economic differentials	Economic surprises in the US have surged recently relative to the Euro area and Japan
Speculator positioning	USD positioning has evened out; the JPY still remains excessively net long

Source: Bloomberg, Standard Chartered

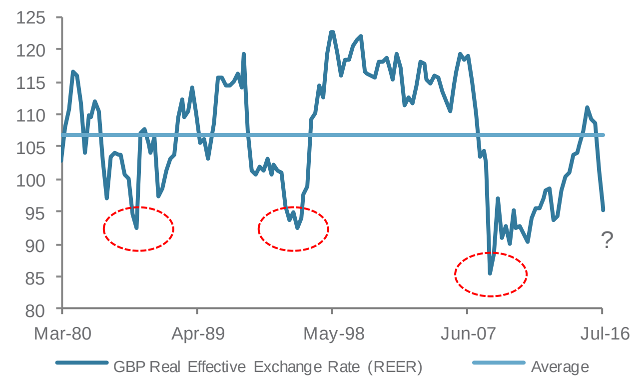
Figure 35: The real (net of inflation) interest rate differential has been the main factor driving USD/JPY lower; higher Japan inflation needed to reverse course

US-Japan real interest rate differentials and USD/JPY

Source: Bloomberg, Standard Chartered

Figure 36: In inflation adjusted terms, GBP has fallen much more historically

GBP real effective exchange rate (REER)



Source: Bloomberg, Standard Chartered

FX

AUD: Likely to stay above this year's low

As expected, there was limited impact on the AUD following Brexit, since Australia has limited trade linkages with Europe and the UK. China continues to shape the outlook for the AUD. The key factor for limited downside risks for the AUD is stability - or at least a no-hard-landing scenario - in China. In addition, demand for Australia's AAA-rated, but higher yielding, government bonds, is also supportive of the AUD. Nonetheless, we also believe any gains in the AUD are likely to be limited for two reasons. First, we would expect the RBA to push back against AUD strength as the iron ore price rally falters. Second, without significant upside in commodity prices and China growth, we do not see sustained AUD gains.

Figure 37: Iron ore prices continue to support the AUD

Iron ore prices and AUD/USD

Source: Bloomberg, Standard Chartered

Asia ex-Japan: Stable as long as China is stable

We continue to see Asia ex-Japan currencies largely trading in a range, along with the broad USD. Though higher capital flows and lower rates globally are supportive of appreciation in regional currencies, we believe central banks are likely to limit significant gains owing to the still lacklustre regional growth picture.

We expect USD/SGD to trade largely within its 2016 range. With the pair trading near the lower end of this range, there is possibility of some gains from here. Increasing risks of a further MAS policy easing (ie, downward adjustment of the policy band) could be near-term catalysts. We believe there is likely to be further weakness in the CNY as China weakens its currency against those of its trade partners to ease domestic monetary conditions.

Currencies with lower exposure to external risks, namely the INR, IDR and PHP, are likely to be more resilient, given their focus on domestic growth fundamentals. However, we believe policymaker intervention may limit any significant rally in these currencies.

What has changed in Asia ex-Japan currencies

Factor	Recent moves
USD outlook	USD remains well within recent ranges
China risks	Recent China data continue to show improvement, highlighting little risk of an imminent hard landing
Capital flows	Capital flows to the region have begun to pick up, particularly in Indonesia and Thailand

Source: Standard Chartered

Figure 38: SGD largely follows the broad USD index; potential for some recovery from current levels

USD broad trade weighted index and USD/SGD

Source: Bloomberg, Standard Chartered

Standard Chartered

Market performance summary *

Equity	Year to date		1 month	
Global Equities	4.6%	↑	2.7%	↑
Global High Dividend Yield Equities	9.5%	↑	2.4%	↑
Developed Markets (DM)	3.9%	↑	2.3%	↑
Emerging Markets (EM)	11.4%	↑	6.3%	↑
By country				
US	6.6%	↑	3.8%	↑
Western Europe (Local)	-0.5%	↓	3.3%	↑
Western Europe (USD)	-3.1%	↓	-1.8%	↓
Japan (Local)	-13.1%	↓	3.6%	↑
Japan (USD)	-1.7%	↓	1.9%	↑
Australia	8.6%	↑	5.2%	↑
Asia ex-Japan	7.0%	↑	6.1%	↑
Africa	19.6%	↑	6.9%	↑
Eastern Europe	17.9%	↑	3.5%	↑
Latam	32.5%	↑	10.9%	↑
Middle East	2.1%	↑	2.2%	↑
China	-0.2%	↓	7.0%	↑
India	4.3%	↑	3.8%	↑
South Korea	8.3%	↑	4.4%	↑
Taiwan	15.8%	↑	7.6%	↑
By sector				
Consumer Discretionary	0.5%	↑	2.1%	↑
Consumer Staples	9.9%	↑	2.1%	↑
Energy	19.5%	↑	1.6%	↑
Financial	-1.4%	↓	1.0%	↑
Healthcare	1.7%	↑	5.5%	↑
Industrial	7.6%	↑	2.3%	↑
IT	5.6%	↑	4.8%	↑
Materials	14.8%	↑	3.9%	↑
Telecom	11.4%	↑	2.4%	↑
Utilities	13.6%	↑	2.8%	↑
Global Property Equity/REITS	12.4%	↑	4.8%	↑

Bonds	Year to date		1 month	
Sovereign				
Global IG Sovereign	8.5%	↑	-0.6%	↓
Global HY Sovereign	13.1%	↑	4.1%	↑
EM IG Sovereign	11.7%	↑	3.3%	↑
US Sovereign	5.1%	↑	0.9%	↑
EU Sovereign	7.7%	↑	-1.3%	↓
Asia EM Local Currency	11.7%	↑	2.4%	↑
Credit				
Global IG Corporates	7.6%	↑	0.8%	↑
Global HY Corporates	10.6%	↑	1.8%	↑
US High Yield	12.3%	↑	3.1%	↑
Europe High Yield	4.5%	↑	-2.5%	↓
Asia High Yield Corporates	9.9%	↑	2.6%	↑

Commodity	Year to date		1 month	
Diversified Commodity	8.3%	↑	-4.1%	↓
Agriculture	5.8%	↑	-7.4%	↓
Energy	-0.2%	↓	-9.8%	↓
Industrial Metal	12.1%	↑	6.4%	↑
Precious Metal	30.0%	↑	7.3%	↑
Crude Oil	8.7%	↑	-9.9%	↓
Gold	25.4%	↑	5.0%	↑

FX (against USD)	Year to date		1 month	
Asia ex- Japan	0.3%	↑	-0.3%	↓
AUD	2.9%	↑	0.6%	↑
EUR	1.5%	↑	-1.9%	↓
GBP	-10.2%	↓	-9.7%	↓
JPY	13.6%	↑	-1.0%	↓
SGD	4.7%	↑	-0.9%	↓

Alternatives	Year to date		1 month	
Composite (All strategies)	0.5%	↑	1.5%	↑
Arbitrage	-0.9%	↓	0.7%	↑
Event Driven	5.7%	↑	2.5%	↑
Equity Long/Short	-2.2%	↓	1.6%	↑
Macro CTAs	-0.2%	↓	1.4%	↑

*All performance shown in USD terms, unless otherwise stated.

*YTD performance data from 31 December 2015 to 21 July 2016 and 1-month performance from 21 June 2016 to 21 July 2016

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

Events calendar

Jul

18-21 US Republican Party National Convention

21 ECB Policy Meeting

25-28 US Democratic Party National Convention

26-27 US Federal Reserve Policy Meeting

28-29 Bank of Japan Policy Meeting

Aug

Brazil – Congress convenes; likely impeachment proceedings against former President Dilma Rousseff

Sep

04-05 G20 Summit in Hangzhou, China

08 ECB Policy Meeting

21 US Federal Reserve Policy Meeting

20-21 Bank of Japan Policy Meeting

India New RBI Governor takes charge

Oct

20 ECB Policy Meeting

31 Oct-01 Nov Bank of Japan Policy Meeting

Italy Constitutional Referendum

Nov

02 US Federal Reserve Policy Meeting

08 US Presidential Elections

30 Australia Parliamentary Elections

APEC Annual APEC Summit, Peru

Dec

08 ECB Policy Meeting

14 US Federal Reserve Policy Meeting

19-20 Bank of Japan Policy Meeting

11 WTO – China expects to gain “market economy” status

The team

Alexis Calla*

Global Head, Investment Advisory and Strategy, Chair of the Global Investment Committee

Steve Brice*

Chief Investment Strategist

Aditya Monappa*, CFA

Head, Asset Allocation and Portfolio Solutions

Clive McDonnell*

Head, Equity Investment Strategy

Audrey Goh, CFA

Director, Asset Allocation and Portfolio Solutions

Manpreet Gill*

Head, FICC Investment Strategy

Rajat Bhattacharya

Investment Strategist

Arun Kelshiker, CFA

Executive Director Asset Allocation and Portfolio Solutions

TuVi Nguyen

Investment Strategist

Victor Teo, CFA

Investment Strategist

Tariq Ali, CFA

Investment Strategist

Abhilash Narayan

Investment Strategist

Trang Nguyen

Analyst, Asset Allocation and Portfolio Solutions

Our experience and expertise help you navigate the markets and provide actionable insights to reach your investment goals.

* Core Global Investment Committee voting members

Important information

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.

Explanatory Notes – The asset allocation diagram page 26 is only an example, provided for general information only and it does not constitute investment advice, an offer, recommendation or solicitation. It does not take into account the specific investment objectives, needs or risk tolerances of a particular person or class of persons and it has not been prepared for any particular person or class of persons.

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