Global Market Outlook

Fundamentals over event risks

Any equity market pullback in the coming months is likely to be limited in size and length. While near-term technical indicators are soft and event risks loom, fundamentals remain strong. We continue to expect a gradual pivot to reflation where growth remains robust and inflation pressures rise only slowly. We prefer Euro area and Asia ex-Japan markets.

We prefer a balanced multi-asset strategy that favours equities over corporate bonds. However, limited inflation and capped bond yields mean the environment also remains supportive of multi-asset income strategies.

Temporary USD bounce expected. The USD looks oversold and could bounce in the short term. However, longer-term drivers argue for a range-bound to bearish USD outlook. This view is key to our preference for Emerging Market government bonds (USD and local currency) and Asia ex-Japan equities.

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01 Prefer equities over bonds, including corporate bonds

02 Prefer Euro area, Asia ex-Japan equities and EM government bonds

03 Balanced strategies are likely to offer the most attractive risk/reward

Fundamentals over event risks

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- We prefer a balanced multi-asset strategy that favours equities over corporate bonds. However, limited inflation and capped bond yields mean the environment also remains supportive of multi-asset income strategies.
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Volatility increases, especially in Developed Markets

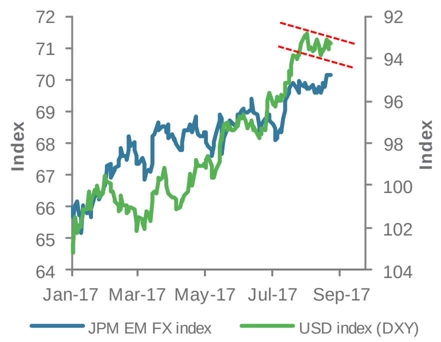
A modest turn higher in volatility across equity, bond and FX markets characterised the past month. This was more pronounced in Developed Markets (DMs), with US and Euro area equities falling modestly ahead of key central bank events. However, EM equities continued to deliver quite strong returns, both in Asia and elsewhere.

This mixed market performance comes against an unchanged macro backdrop, in our view. Conversations regarding central banks continue to centre around reducing accommodative policies (how much in the US, when to start in the Euro area). However, given still-modest inflation, we expect this process to remain gradual.

From a market perspective, this means we continue to view pauses or pullbacks positively. While we make use of the opportunity to close some of our key themes (see overleaf), we do not expect a large or prolonged market pullback.

Figure 1: Magnitude of USD rebound is key

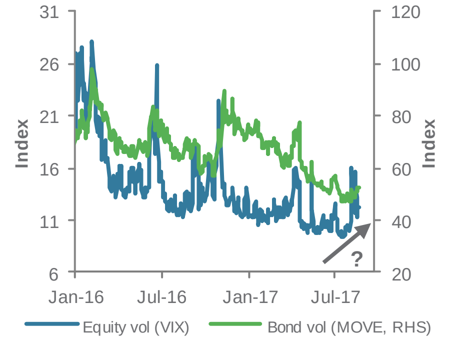
USD Index (inverted)) versus JPM EM FX index



Source: Bloomberg, Standard Chartered

Figure 2: Volatility turning higher?

Equity (VIX) and Bond (MOVE) market volatility



Source: Bloomberg, Standard Chartered

Are we set for an equity market correction?

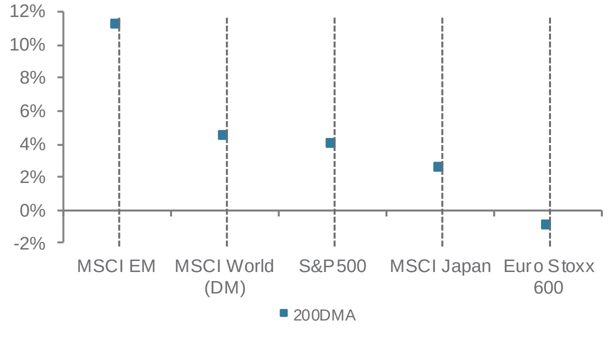
A search for potential sources of a deeper correction throws up three candidates. First, near-term technical indicators are tepid at best. The S&P 500 is still attempting to rebound back above its 50-day moving average while the Euro Stoxx 600 (in EUR terms) has tentatively dipped below its 200-day moving average, a key technical support. Second, several event risks loom – the possibility that the ECB will start ending ultra-loose policy, Trump's renewed trade war threats, the US debt ceiling stand-off, and rising geopolitical threats (eg, Korea). Third, a gradual revival of inflation expectations, especially in the US, could drive bond yields higher, making them more competitive versus equities. This could also revive the USD, posing a threat to EM inflows.

However, the positive case remains strong. Revenue and earnings growth continues to surprise positively in major markets, supporting high market valuations. Capped bond yields and only gradual policy tightening have provided a favourable backdrop and market momentum remains strong, particularly in EMs.

We remain of the view that any pullback is likely to be limited in magnitude and length. It would likely take a significant escalation of risk events to pull equity markets sharply lower against what are still extremely supportive fundamentals, in our opinion. From a multi-asset perspective, this is also why we continue to favour balanced strategies over income strategies from a total return perspective.

Figure 3: EM equity market momentum strong, but some DMs, especially Euro area, testing key support

Major equity indices, distance from 200-day moving average (%)



Source: Bloomberg, Standard Chartered

USD rebound a risk to EM assets

An excessively oversold USD means a modest rebound is possible in the short term. A larger-than-expected extension of such a rebound poses a risk to our positive views on EM USD and local currency bonds, our two most preferred areas. However, we do not believe this is likely, especially given our range-bound to bearish long-term view on the USD amid a lack of further domestic catalysts.

More broadly, we are mindful that income strategies have also pulled back previously during periods of risk aversion. However, as with equities, we believe the fundamental environment remains supportive of income assets. While an equity market pullback would have a negative impact on returns in the equity component of multi-asset income strategies, we continue to believe that limited inflation and a gradual approach to raising policy rates in the US, and eventually in the Euro area, are likely to provide a supportive backdrop for multi-asset income strategies.

Closing three views

First, we have closed our bullish EUR/USD view. This has delivered over 8% absolute returns since we initiated in April. We maintain our positive long-term view on the EUR, given that we expect the ECB to initiate the end of ultra-loose policy soon. However, limited room for near-term surprises and rising technical headwinds mean this is a good time to lock in profit, while potentially awaiting a better entry level.

Second, we have closed our view expecting the BRL, RUB, INR and IDR to collectively outperform the broader EM currency universe. While this has done well in delivering positive absolute returns, the broader EM basket continues to do better still. Our comfort level with EM currencies remains intact, but we are increasingly of the view that EM local currency bonds offer a better way to gain exposure than a simple currency basket.

Third, we have closed our bullish macro view on Brent crude oil. To be clear, this does not mean we are turning bearish; indeed, our view remains one of flat-to-gradually-higher prices over time. However, the process of rebalancing is taking longer than we expected; hence, we are taking advantage of recent higher prices to close it at a small 'loss'.

Figure 4: Our Tactical Asset Allocation views (12M) USD

Asset class	Sub-asset class	Relative outlook	Rationale
Multi-asset Strategies	Multi-asset Income	🟢	Low policy rates, low absolute yields expected to remain a support
	Multi-asset Macro	🔴	Reduced need for insurance-like assets amid continued growth
Equities 🟢	Euro area	🟢	Earnings expectations soften, but from strong levels; Valuations modest; Currency gains not a major risk yet
	Asia ex-Japan	🟢	Earnings uptick positive; Valuations reasonable; Trade tensions long-term risk
	Non-Asia EM	🟡	Commodities key to earnings; Valuations mixed; Flows positive; Politics a risk
	Japan	🟡	JPY key to earnings; Valuations reasonable, but risk of extreme move is high
	US	🟡	Earnings focus shifts to potential tax reforms; Margins and valuations are risks
	UK	🔴	Brexit talks cloud earnings outlook; Full valuations; GBP rebound a risk
Bonds 🔴	EM government (USD)	🟢	Attractive yield; Reasonable valuations; High rate sensitivity, USD are risks
	EM government (local currency)	🟢	Attractive yield; USD less of a headwind; Currency volatility is a risk
	Asian USD bonds	🟡	Moderate yield; Reasonable valuations; Demand/supply favourable
	DM HY corporate	🟡	Attractive yield; Declining default rates; Expensive valuation
	DM IG corporate	🟡	Moderate yield; Full valuations; Defensive characteristics
	DM government	🔴	Low yield; Full valuations; Fed policy, higher inflation, yield rebound are risks
Currencies	EUR	🟢	Economic momentum supports ECB stimulus withdrawal
	USD	🟡	Policy divergence diminishing; other central banks turning more hawkish
	GBP	🟡	Political and policy uncertainty to weigh in; likely to remain range-bound
	EM currencies	🟡	Low volatility, range-bound USD and stable China to remain supportive
	AUD	🟡	Central bank likely to maintain policy for now, but risk sentiment supportive
	JPY	🔴	USD/JPY remains tied to US 10-year yields, which we expect to rise gradually

Source: Standard Chartered Global Investment Committee

Legend: 🟢 Overweight 🟡 Neutral 🔴 Underweight

Figure 5: Performance of key #pivot? themes since Outlook 2017

Key themes (12 months)	Date open	Absolute	Relative
Balanced allocation to outperform multi-asset income allocation[6]	15-Dec-16	–	✓
Multi-asset income allocation to deliver positive absolute return[5]	15-Dec-16	✓	–
Alternative strategies allocation to deliver positive absolute returns[3]	15-Dec-16	✓	–

Key Asset Allocation Calls (12 months)	Date open	Absolute	Relative
Corporate Bonds to outperform Government Bonds[1]	15-Dec-16	–	✓
EM USD government bonds to outperform broader bond universe	26-May-17	–	✗
EM LC government bonds to outperform broader bond universe	23-Jun-17	–	✓
Europe ex UK to outperform global equities	24-Feb-17	–	✓
Asia ex-Japan to outperform global equities	30-Mar-17	–	✓
China to outperform Asia ex Japan equities	24-Feb-17	–	✓
Korea to outperform Asia ex Japan equities	23-Jun-17	–	✗

Absolute return calls (Less than 12 months)	Date open	Absolute	Relative
Bullish USD/JPY	30-Jun-17	✗	–
Bullish Euro area bank sector equities	28-Apr-17	✓	–
Bullish US floating rate senior loans	15-Dec-16	✓	–

Closed calls (Less than 12 months)	Date open	Absolute	Relative
BRL, RUB, IDR and INR basket[4] to outperform EM FX Index (as of 24-08-2017)	15-Dec-16	–	✗
Bullish EUR/USD (as of 24-08-2017)	28-Apr-17	✓	–
Bullish Brent crude oil price (as of 24-08-2017)	15-Dec-16	✗	–
Bullish Korea equities *(as of 10-08-2017)*	5-May-17	✓	NA
Bearish AUD/USD *(as of 21-07-2017)*	30-Jun-17	✗	NA
US Technology to deliver positive returns and outperform US equities *(as of 23-06-2017)*	15-Dec-16	✓	✓
'New China' equities to deliver positive returns *(as of 09-06-2017)* [2]	15-Dec-16	✓	NA
Positive USD/CNY *(as of 02-06-2017)*	15-Dec-16	✗	NA
DM HY Bonds to outperform broader bond universe *(as of 25-05-2017)*	15-Dec-16	NA	✓
India to deliver positive returns and outperform Asia ex Japan equities *(as of 25-05-2017)*	15-Dec-16	✓	✗
Japan (FX-hedged) to deliver positive returns and outperform global equities *(as of 27-04-2017)*	15-Dec-16	✓	✗
US Small Cap to deliver positive returns and outperform US equities *(as of 27-04-2017)*	15-Dec-16	✓	✗
Indonesia to deliver positive returns and outperform Asia ex Japan equities *(as of 27-04-2017)*	15-Dec-16	✓	✗
US equities to deliver positive returns and outperform global equities *(as of 30-03-2017)*	15-Dec-16	✓	✗
Negative EUR/USD *(as of 17-02-2017)*	15-Dec-16	✗	NA
Positive AUD/USD *(as of 17-02-2017)*	15-Dec-16	✓	NA

Source: Bloomberg, Standard Chartered

Performance measured from date of view being opened to 30 August 2017 or when the view was closed

[1] A custom-made composite of 44% Citi WorldBIG Corp Index Currency Hedged USD and 56% Bloomberg Barclays Global High Yield Total Return Index

[2] 'New China' index is a custom-made market-cap-weighted index of the following MSCI China industry groups: pharmaceuticals, biotech and life sciences, healthcare equipment and services, software and services, retailing, telco services and consumer services

[3] Alternative strategies allocation is described in 'Outlook 2017: #pivot', Figure 13, page 36

[4] A custom-made equally weighted index of the BRL, RUB, IDR and INR currencies

[5] Income allocation is as described in our H2 Outlook, Should I stay, or…?, 30 June 2017, page30

[6] Balanced allocation as described our Global Market Outlook, Fresh opportunities to pivot, 31 March 2017, page 28

✓- Correct call; ✗ - Missed call; NA - Not Applicable

Past performance is not an indication of future performance. There is no assurance, representation or prediction given as to any results or returns that would actually be achieved in a transaction based on any historical data.

Perspectives

on key client questions

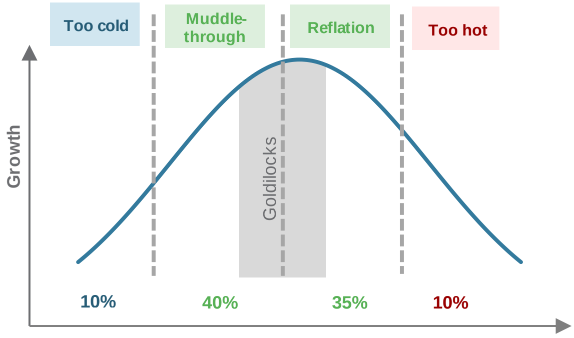
How are your economic scenarios evolving?

We have not made major changes to our economic scenarios since our *Outlook 2017* was released in December last year. If anything, the outlook has slightly improved, with inflation being weaker than expected amid acceleration in growth – the so-called 'Goldilocks' pivot, or transition, from 'muddle-through' to 'reflation'.

Looking forward, we still expect a modest pick-up in inflation. While the Phillips curve – the theoretical relationship between falling unemployment and rising wage pressures – is clearly not a precise tool when forecasting future inflation, we do believe the underlying theory behind the relationship is valid. As unemployment falls, the risk of inflation picking up increases, although the timing and extent of this acceleration remains highly uncertain.

Figure 6: Economic outlook remains constructive

Goldilocks has been the best of both worlds – accelerating growth and declining inflation expectations



Source: Bloomberg, Standard Chartered

Therefore, we expect more and more central banks to focus on removing some of the monetary accommodation that has been in place following the global financial crisis of 2007-2008. The central scenario is that this is likely to be a gradual process that gives ample time to markets to digest with limited volatility. However, there are always risks to this scenario.

Will equity markets continue to rally from here?

We have become a little less constructive on the near-term outlook for equity markets. Following are the three main reasons for this:

1. **Inflation expectations to rise:** We expect inflation expectations to rise somewhat in the coming months. At some level, this may be reassuring, but it is also likely to put gradual upward pressure on bond yields, increasing their competitive positioning relative to equities.

2. **Increasing event risks:** We are seeing an increase in possible event risks, such as the tensions between the US and North Korea, the US debt ceiling debate and the US's more confrontational approach on trade issues with China and Mexico.

3. **Technical picture:** The technical picture for US equities has deteriorated. While other markets have held up so far, including Euro area equities in USD terms, should the US see a further break lower, it will become increasingly difficult for other markets to shrug off this negative performance.

The above factors may cause some indigestion for equity markets in the coming 1-3 months. However, we do not believe they will be sufficient to derail the bull market for global equities. Moreover, we doubt that any pullback will be prolonged. Therefore, we prefer to ride out the potential volatility and, for those who are under-exposed to equities, we would take a dollar-cost averaging approach to equity investments, accelerating purchases on any weakness.

Are Euro area equities likely to outperform?

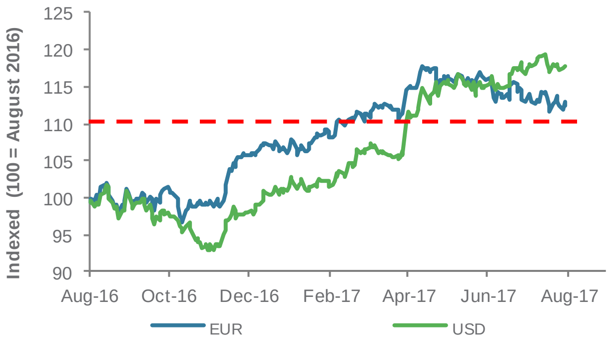
Euro area equities have held up well in USD terms in recent times with EUR strength offsetting recent weakness in the equity market's local currency performance. Given that we have closed our bullish EUR stance (see the next question), this naturally leads to the question of whether this situation will reverse and, if so, will EUR weakness or local currency price appreciation dominate.

Over the longer term, we expect Euro area equities to continue outperforming. While earnings expectations have been undermined slightly by EUR strength in the past 2-3 months (see page 17), we see the longer-term drivers as being supportive, especially if the EUR does not strengthen too dramatically. The domestic earnings drivers remain strong and the recovery in Emerging Market (EM) economies are also supportive of Euro area exports.

From a short-term perspective, it is interesting to note that Euro area stock market indices are sitting just above key supports. Therefore, absent a significant shake out in US markets, we could see the situation of the past few months reverse, with equity market gains being mitigated somewhat by EUR losses.

Figure 7: Euro area equities close to key support in EUR terms

MSCI Europe ex-UK index in EUR and USD terms



Source: Bloomberg, Standard Chartered

Do you expect further EUR strength?

Since we initiated our bullish EUR/USD call (28 April 2017), the currency pair rallied 8.5% before we closed it (25 August 2017). There are three reasons why we closed the trade.

1. **Central bank expectations:** While monetary policy divergence has become too extreme over the longer term, we believe, in the short term the market may be pricing in too little tightening from the Fed and too much from the ECB.

   For the latter, the EUR strength itself could be a factor to delay any tapering of quantitative easing. As this adjusts, it could put downward pressure on EUR/USD. This is supported by the fact that US economic surprises are recovering sharply from low levels.

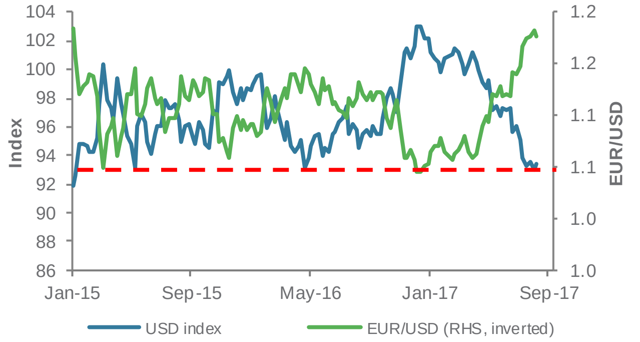
2. **Technicals** – The USD (DXY) index is close to a key support. Given the EUR's high weight in this index, it is difficult to see the EUR weakening significantly if the USD were to bounce temporarily.

3. **Positioning** – Speculators already have huge long EUR positions, which means the risk-reward is skewed towards more selling interest should Euro area data or the ECB disappoints (on rolling back its monetary stimulus).

As you can see, the above are short-term factors that could undermine the EUR's performance in the coming 1-3 months. Over a longer-time horizon, we continue to believe that the EUR/USD cross will not revisit its lows (sub-1.05) and is likely to ultimately break higher still.

Figure 8: DXY approaching key support

EUR/USD and the USD (DXY) index (inverted)



Source: Bloomberg, Standard Chartered

Are you worried about the US debt ceiling debate?

There are three main scenarios regarding the debt ceiling:

1. The ceiling is raised without an interruption to government services or a technical default on the government's obligations.
2. A short-lived government shutdown, but no technical default on the government's obligations. It is estimated that this would occur at the end of September, should no deal be reached by then.
3. A government shutdown is followed by a technical default on the government's obligations, but this is quickly rectified. According to estimates, in the absence of a deal, the government will run out of money to pay its obligations sometime between the middle and end of October.

We would rank the likelihood of these scenarios playing out in the above order, with the central scenario being that a deal is reached prior to the government shutting down. With the White House, House of Representatives and the Senate all being controlled by the Republicans, it would be politically damaging for the ruling party not to reach an agreement that avoids the last two scenarios, especially the last.

That said, there is still likely to be some brinkmanship and '#twittership' before a deal is reached, with the president unlikely to quietly accept he is not going to get the money to 'build that wall'. This could prove critical when it comes to short-term market implications.

While we have seen some increase in market volatility recently, a government shutdown is likely not priced in. The global equity market and the S&P 500 are approximately just 1% from their recent highs.

This is because almost everybody's central scenario is a deal will be reached. However, with posturing and rhetoric likely to become more extreme before a deal is reached, it would be normal for markets to get nervous about the outcome in the coming weeks. This is one potential source of short-term market weakness, but we view this as a buying opportunity for investors who are still under-exposed to global equities, particularly the Euro area and the Asia ex-Japan region.

Macro overview

IMPLICATIONS
FOR INVESTORS

01 The Fed is likely to raise rates two more times over the next 12 months

02 The ECB is likely to taper policy stimulus in the next 12 months; the BoJ to stay on hold for now

03 China could tighten monetary policy further and use fiscal/credit stimulus to support growth

Broadening growth

- **Core scenario:** A pick-up in economic activity in the US, Euro area and Japan is setting the stage for a synchronised global expansion, initially driven by Asia ex-Japan and some Emerging Markets. Inflation is likely to rise only gradually.
- **Policy outlook:** We expect the Fed to gradually tighten monetary policy, including starting to reduce its balance sheet in Q3 17. The ECB is likely to start withdrawing stimulus in 2018, while China gradually tightens monetary policy.
- **Key risks:** a) Tighter monetary policy caused by an inflation surprise (in the US and the Euro area) or greater focus on financial stability (in China); b) US/Euro area politics, geopolitics in North Asia; c) deflation shock from a slowdown in China.

Synchronised expansion

We continue to assign a 75% probability to either 'reflation' or 'muddle-through' scenarios over the next 12 months. For the first time since the 2008 financial crisis, we are seeing broad-based expansion in economic activity across the Developed (DMs) and Emerging Markets (EMs). This, combined with continued benign inflation, has raised the prospects of a longer-than-usual business cycle. Inflationary or deflationary downside remains outside risks (at 15% and 10%, respectively) to this scenario, given tightening job markets in DMs and China's increased focus on financial stability. Politics in the US and Europe (especially in Italy) and geopolitical and trade tensions around North Asia are other risks.

Figure 9: Euro area and Japan joined the US and EMs in lifting global growth outlook

Region	Growth	Inflation	Benchmark rates	Fiscal deficit	Comments
US	🟢	🟡	🔴	🟢	Strong job market continues to fuel growth, but fails to lift inflation. Focus now shifts to tax reforms. The Fed to gradually tighten policy
Euro area	🟢	🟡	🟡	🟡	Growth expectations continue to be revised higher, although inflation remains tepid. The ECB may start withdrawing stimulus in 2018
UK	🔴	🔴	🟡	🟡	Growth outlook weakens as rising inflation, slowing wages hurt consumption. Brexit talks remain a key risk. The BoE may tolerate inflation
Japan	🟢	🟡	🟡	🟡	Growth upgrades continue as consumption emerged as a growth driver. BoJ to maintain easy monetary policy as deflationary pressures remain
Asia ex-Japan	🟡	🟡	🟡	🟢	After a strong H1, China to balance growth agenda with greater focus on financial stability
EM ex-Asia	🟢	🟢	🟢	🟡	Brazil and Russia emerge from recession although politics remains a risk in Brazil. Falling inflation supports further central bank easing

Source: SCB Global Investment Committee

Legend: 🟢 Supportive of risk assets 🟡 Neutral 🔴 Not supportive of risk assets

US – focus turns to tax cut, Fed balance sheet

Tax reforms to drive growth/policy agenda near term. US economic growth appears to have modestly accelerated from its post-crisis trend and economic surprises are turning less negative as a tight job market continues to fuel consumption. President Trump's renewed focus on tax reforms (we expect modest tax cuts), if successful, could lift consumption further, potentially extending the business cycle. We expect the US debt ceiling to be raised, despite the current partisan debate.

Fed to start tightening balance sheet. The inflation outlook has weakened further, but we expect it to rise modestly in the coming months. The Fed is likely to continue with its plan to gradually tighten monetary policy as it seeks to pre-empt financial stability risks caused by easy financial conditions. We expect it to start reducing its balance sheet this year.

Euro area – growth upgrades continue

Growth picks up in southern Europe. The Euro area has seen broad-based growth upgrades, with economic activity accelerating in Italy in the recent months. While German economic activity appears to have peaked, a substantial slack remains across southern Europe, which should keep wages and inflation subdued.

Gradual withdrawal of ECB stimulus. We expect the ECB to start tapering its bond purchases in 2018, given still-low inflation and the slack in southern Europe (a plan may be unveiled this year). The ECB is likely to weigh against excessive EUR strength as that could undermine the recovery to some extent.

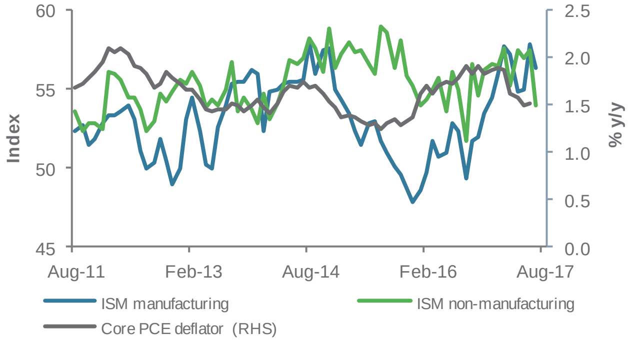
UK – inflation hurting purchasing power

Consumption takes a hit. UK growth expectations continued to be downgraded as the consumer-driven economy faces headwinds from slowing wage growth and rising inflation. The slow-paced, ongoing Brexit talks are also likely to weigh on business confidence in the coming months, hurting growth.

BoE on hold for now. The central bank is likely to look through the rise in near-term inflation as it expects growth to slow down amid falling real income and Brexit-related risks.

Figure 10: US activity indicators appear to have peaked; tax cuts could help extend the ongoing expansion

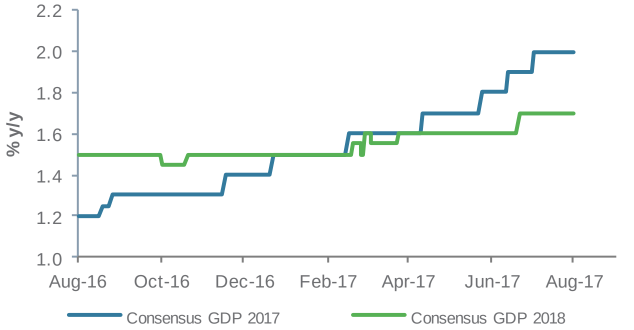
US manufacturing and services sector indicators; core personal consumption expenditure deflator, %, y/y (RHS)



Source: Bloomberg, Standard Chartered

Figure 11: Euro area growth expectations continue to be revised higher, helped by growth upgrades across the region

Euro area consensus GDP growth expectations for 2017 and 2018, %, y/y



Source: Bloomberg, Standard Chartered

Figure 12: UK's consumption and business sentiment have started to trend lower amid growing Brexit-related risks

UK business barometer; retail sales growth, ex-auto fuel, % y/y (RHS)

Source: Bloomberg, Standard Chartered

Japan – domestic consumption picks up

Consumers fuel growth. Japan recorded the fastest growth among G7 economies in Q2 as consumption and investment emerged as drivers of growth amid record low borrowing costs, low oil prices and the impact of last year's fiscal stimulus. While growth should taper off in H2 due to base effects, a more balanced growth could make the expansion, already the longest in a decade, more sustainable.

BoJ likely to stay accommodative. Japan's core inflation remains close to 0%, highlighting the structural deflationary challenges facing the economy despite the pick-up in economic activity. Thus we expect the central bank to maintain its accommodative policy over the next 12 months.

China – focus shifts to financial stability

Growth slows after strong H1. China's economic activity showed modest, but broad-based slowdown in July as tighter credit policies and controls over the property sector hurt investment. With H1 growth (6.9%) significantly exceeding 2017's 6.5% target, authorities have some latitude in moderating growth, as they focus on financial stability.

Balancing act to continue. We expect this swing between tighter credit and monetary policy and targeted fiscal easing to continue, at least until the Communist Party Congress in Q4, when a new batch of leaders takes charge. The renewed focus on curbing financial and corporate sector leverage is positive for the economy's long-term sustainability.

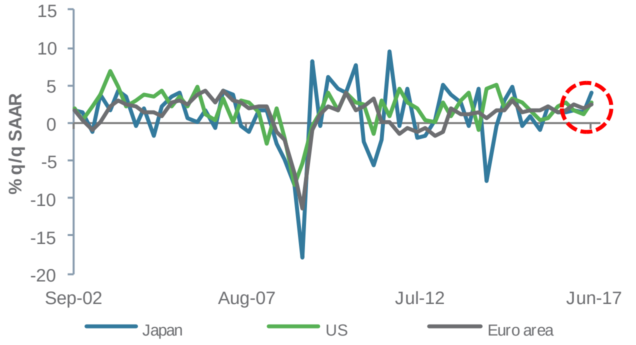
Emerging Markets – looser monetary policies

Low inflation enabling easier monetary policies in Asia. Inflation has fallen across most of Asia, enabling central banks to cut interest rates or, at least, stay accommodative. Indonesia is the latest central bank to cut rates; India could follow later this year as inflation-adjusted rates remain high and its currency strong.

Brazil, Russia, Mexico may cut rates: Brazil and Russia continue to see falling inflation, which has left inflation-adjusted rates too high. This is likely to drive more rate cuts. Meanwhile, inflation expectations may have peaked in Mexico, which should allow the central bank to halt rate hikes and start easing policy.

Figure 13: Japan's economy outpaced other major developed economies in Q2 as domestic consumption drove faster growth

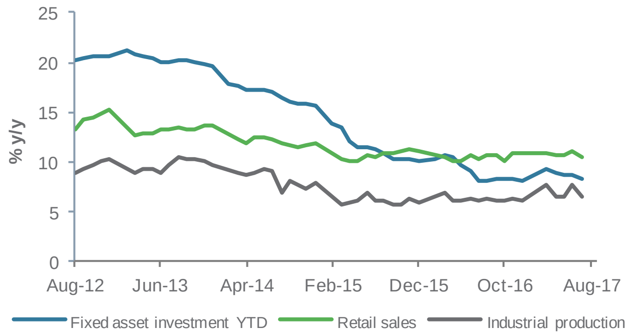
Economic growth trends in Japan, the US and Euro area; q/q SAAR



Source: Bloomberg, Standard Chartered

Figure 14: China's economic activity indicators showed modest slowdown in July, but overall growth remains resilient

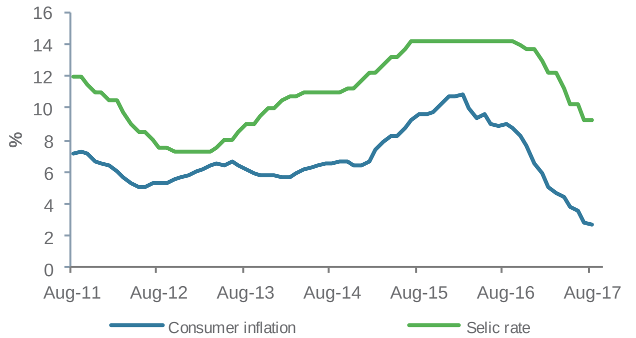
China's fixed asset investment (YTD), retail sales and industrial production growth; % y/y



Source: Bloomberg, Standard Chartered

Figure 15: Brazil's inflation-adjusted rates remain high, boosting chances of further rate cuts

Brazil's consumer inflation and benchmark Selic rate; % y/y



Source: Bloomberg, Standard Chartered

Bonds

IMPLICATIONS FOR INVESTORS

01 Favour EM USD and local currency government bonds

02 Prefer corporate bonds over government bonds within DMs

03 DM HY and Asia USD remain core holdings

Maintaining tilt towards EM

- We believe Emerging Market (EM) bonds, both USD and local currency, offer the best potential returns for the risk within bonds, given our outlook for robust global growth, constructive sentiment towards risk assets and a rangebound to bearish USD view. We continue to see Asia USD corporate bonds as a core holding.
- Within Developed Markets (DMs), we continue to favour corporate bonds over government bonds. US High Yield (HY) debt remains an important source of yield pick-up when part of a broader diversified income allocation.
- DM Investment Grade (IG) government bonds remain our least preferred segment given low absolute yield levels with potential for capital losses as both the Fed and the ECB normalise monetary policy.

Figure 17: Bond sub-asset classes in order of preference

Bond asset class	View	Rates policy	Macro factors	Valua-tions	FX	Comments
EM USD government	▲ Preferred	Not Supportive	Supportive	Neutral	NA	Attractive yields, inexpensive valuations, positive EM sentiment
EM local currency	▲ Preferred	Neutral	Supportive	Neutral	Neutral	Attractive yields amid reduced currency risk and positive EM outlook
Asian USD	◆ Core	Not Supportive	Neutral	Neutral	NA	Defensive allocation. Influenced by China domestic credit fundamentals
DM HY corporate	◆ Core	Not Supportive	Supportive	Neutral	Supportive	Attractive yields on offer offset by somewhat expensive valuations
DM IG corporate	◆ Core	Not Supportive	Supportive	Neutral	Neutral	Likely to outperform DM IG govt bonds. Yield premium relatively low
DM IG government	▼ Less Preferred	Not Supportive	Not Supportive	NA	Neutral	Returns challenged by normalising Fed and ECB monetary policy

Source: Standard Chartered Global Investment Committee

Legend: ● Supportive ● Neutral ● Not Supportive ▲ Preferred ▼ Less Preferred ◆ Core

Figure 16: Where markets are today

Bonds	Yield	1-month return
DM IG government	1.2%	1.4%
EM USD government	5.2%	1.6%
DM IG corporates	2.4%	0.9%
DM HY corporates	5.2%	0.6%
Asia USD	3.7%	1.1%
EM local currency government	6.1%	1.5%

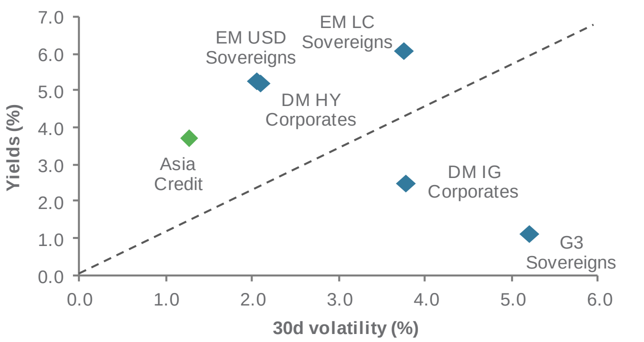
Source: Bloomberg, JPMorgan, Barclays, Citigroup, Standard Chartered
*As of 31 July 2017

Developed Market Investment Grade government bonds – Less preferred

We maintain a cautious stance towards DM IG government bonds amid expectations for higher Treasury and Bund yield as both the Fed and the ECB move towards policy normalisation. The recent decline in US Treasury yields has likely been a result of a scale back in inflation expectations. Part of this may have been due to only a modest rebound in commodity prices and reduced expectations of US fiscal stimulus. Nonetheless, we do not see this trend continuing and, ultimately, higher growth expectations amid an improving labour market are likely to drive inflation higher. Moreover, positioning on US 10-year Treasuries remains at extreme net-long levels, creating the risk of a quick pick-up in yields.

Figure 18: EM USD and LC sovereigns, DM HY and Asia USD credit offer better than DM IG corporate and sovereigns

Yield-to-Worst and 30-day volatility of various bond sub-asset classes



Source: Bloomberg, Standard Chartered

We expect the US 10-year yield to gradually move higher towards 2.50% over the next 12 months and its spread with the 2-year yield to narrow further. Therefore, the 5-7 years maturity bucket, on average, offers the best trade-off between yields on offer and interest rate sensitivity, in our view. We also expect German Bund yields to rise towards 1% over the next 12 months, though this may be partially offset by a stronger EUR (see the FX section for details).

Figure 19: Gradual creep higher in both Treasury and Bund yields

US 10-year Treasury yields and German 10-year Bund yields

Source: Bloomberg, Standard Chartered

Emerging Market USD government bonds – Preferred

EM USD government bonds are one of our preferred bond sub-assets. We believe investor appetite towards EM in general is a key consideration in this outlook (see figure 20).

Our constructive outlook on EM is based on the following expectations: 1) stable China growth and smooth deleveraging, 2) a gradual rise in US interest rates, and 3) a limited downside to commodity prices.

Against this backdrop, EM USD bonds offer an attractive yield of approximately 5%, and remain one of the few areas where valuations are not expensive relative to history. As a result, we are likely to see further gains as we move deeper into the global recovery. Key risks to our view include a significant slowdown in global growth, a sharp deceleration in China growth and/or significant debt concerns, and a major change in US tax policy/protectionist measures.

Figure 20: EM USD sovereign spreads have been closely tied to EM risk sentiment (proxy through EM FX volatility) in the recent past

EM USD Sovereign credit spreads and EM FX volatility

Source: Barclays, Bloomberg, Standard Chartered

Developed Market Investment Grade corporate bonds – Core holding

DM IG corporate bonds are a core holding, in our view, amid their reasonable premium over government bonds and comparatively less sensitivity to rising interest rates.

Credit quality in DM IG bonds remains mixed. In the US, it has started to deteriorate while in Europe it continues to improve. While valuations are expensive relative to history, we believe a scarcity of high quality assets in a low yield environment is likely to allow further modest gains.

Figure 21: DM HY spreads close to post crisis lows, but still above pre-crisis extremes

DM HY historical spreads

Source: Bloomberg, Standard Chartered

Developed Market High Yield corporate bonds – Core holding

We view DM HY corporate bonds as a core holding. While HY bonds also offer an attractive yield of approximately 5%, we do not believe the asset class can deliver returns similar to the recent past. Nonetheless, HY bonds remain an important part of a diversified income allocation.

While valuations appear stretched, we are still some distance from levels seen prior to the 2008 crisis. Furthermore, default rates have been falling, suggesting credit risk may be on an improving trend. HY credit spreads would likely widen if we were to see a period of risk aversion. However, we see these bouts of volatility as opportunities to tactically add exposure. US floating rate senior loans remain an attractive alternative to HY bonds due to their lower interest rate sensitivity.

Asia USD bonds – Core holding

Asia USD corporate bonds are a core holding as we continue to view them as a defensive allocation within EM bonds. The asset class is less sensitive to shifts in EM risk sentiment compared with EM bonds. Thus, despite a lower yield (about 4%), Asia USD bonds are considerably less volatile. Moreover, credit quality remains high with IG bonds accounting for 78% of the universe. Valuations of high grade issuers have been extremely stable amid a positive macroeconomic backdrop and limited issuance.

On the downside, valuations are not cheap with limited room for a decline in yield premiums. Moreover, with China accounting for over 50% of the market, any major deterioration in corporate health there would have a disproportionate impact on returns. While the pace of China's onshore defaults has slowed dramatically, we are not comfortable with high debt metrics of local property developers. As a result, we would limit our exposure in the HY segment.

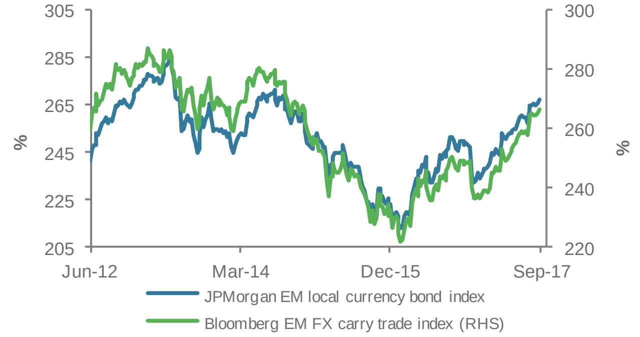
Emerging Market local currency bonds – Preferred

Despite recent outperformance, we like EM local currency bonds as these continue to offer attractive yields of over 6% with contained downside risks, in our opinion. We believe the current environment of modest global growth, low volatility and high interest rate differentials between EMs and DMs is supportive of carry trades (investing in high yielding assets through low cost borrowing). We believe our overweight call on EM local currency bonds is one way to express this view (see figure 22). While most of the returns this year have been explained by currency gains, we believe, going forward, there is considerable potential for carry and capital gains (through domestic rate cuts).

However, we would highlight that this asset class is among the most volatile in the bond market and can be disproportionately affected by a major EM sell-off (although we attach a low probability to such an outcome).

Figure 22: EM Local currency bonds a reasonable proxy to EM FX carry trades

EM local currency bond index and Bloomberg FX carry index



Source: Bloomberg, Standard Chartered

Equities

IMPLICATIONS FOR INVESTORS

01 Global equities remain our preferred asset class

02 Euro area and Asia ex-Japan are our preferred regional markets

03 Positive on China and Korea within Asia ex-Japan

A wait-and-see approach

- Global equities remain our preferred asset class. Equity investors have recently become more cautious due to uncertainty over the outlook for US and Euro area monetary and fiscal policy.
- Euro area equities remain one of our preferred markets. We are focused on an improvement in corporate earnings and margins and a recovery in domestic demand. We take note of the near-term weakness in technical indicators, which is weighing on Euro area indices.
- Asia ex-Japan equities are also preferred. A strong earnings season in sectors with high valuations, including China technology and real estate, has settled some concerns about the sustainability of the region's YTD performance. China and Korea remain our preferred markets.
- Emerging Markets (EMs) ex-Asia is a core holding. The recent recovery in industrial metal prices has lifted sentiment towards Brazil and Chile, where this is a driver. Japan, also a core holding, is performing well, despite recent JPY strength.
- With the Q2 earnings season behind us, monetary and fiscal policies are likely to be the primary focus for equity investors in the months ahead. Fed balance sheet reduction and ECB tapering have the potential to tighten financial conditions, weighing on equity markets. We remain positive on a 12-month basis.
- Risks to our equity preferred view include high valuations and policy surprises.

Figure 23: Where markets are today

Market P/E ratio	P/B	EPS	Index Level
US (S&P 500)			
18x	2.9x	11%	**2,458**
Euro area (Stoxx 50)			
15x	1.5x	14%	**3,404**
Japan (Nikkei 225)			
14x	1.2x	10%	**19,507**
UK (FTSE 100)			
14x	1.8x	12%	**7,365**
MSCI Asia ex-Japan			
13x	1.5x	14%	**663**
MSCI EM ex-Asia			
12x	1.5x	16%	**1,481**

Source: FactSet, MSCI, Standard Chartered
Note: Valuation and earnings data refer to MSCI indices, as of 30 August 2017

Figure 24: Euro area and AxJ are our preferred regions; the UK is the least preferred

Equity	View	Earnings revision	Earnings	Return on equity	Economic data	Bond yields	Comments
Euro area	Preferred	Not Supportive	Neutral	Supportive	Neutral	Neutral	Lead indicators for earnings falling from elevated levels
Asia ex-Japan	Preferred	Supportive	Supportive	Supportive	Supportive	Supportive	Earnings outlook is improving and a weak USD a positive
EM ex-Asia	Core Holding	Not Supportive	Neutral	Neutral	Neutral	Neutral	Weak commodity prices are acting as a drag on equities in EM ex-Asia
Japan	Core Holding	Neutral	Neutral	Supportive	Neutral	Not Supportive	Corporate tax reforms needed to trigger further re-rating.
US	Core Holding	Supportive	Supportive	Supportive	Neutral	Neutral	Focus turning to tax reforms once again
UK	Less Preferred	Not Supportive	Neutral	Neutral	Neutral	Not Supportive	Plans for remaining in the EU customs area positive for UK businesses

Source: Standard Chartered Global Investment Committee

Legend: Supportive | Neutral | Not Supportive | Preferred | Less Preferred | Core Holding

Euro area equities – Preferred

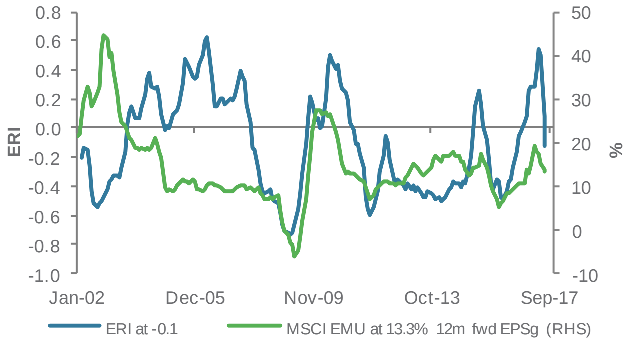
Euro area equities remain a preferred equity market. The region has continued to trade sideways over the past two months, despite a positive earnings season for Euro area companies. Euro strength has remained a drag on equity investor sentiment, but we focus on widening corporate margins and improving domestic demand as factors to support our preferred view.

Consensus expectations for Euro area Q2 corporate earnings surged from 10% at the start of July to 15% currently, with the financial sector witnessing particularly strong upgrades. Earnings revisions have recently weakened, but the fundamental outlook remains solid. Expectations for Euro area non-financial margins have increased from 6.4% to 7.8% over the past 12 months, reinforcing the improving fundamental outlook.

The combined effect of EUR strength and tightening financial conditions and concerns over ECB tapering are current headwinds. However, greater clarity on the path of ECB tapering and a continued improvement in the outlook for corporate earnings could help improve sentiment and contribute to a re-rating of the market, which has witnessed a drop in valuations over the past three months.

Figure 25: Euro area earnings expectations decline, but remain robust

Earnings revisions and consensus 12-month forward earnings growth forecast



Source: FactSet, MSCI, Standard Chartered

Asia ex-Japan equities – Preferred

Asia ex-Japan equities are also a preferred holding. We see favourable risk-reward for this market, underpinned by the expectations of a range-bound USD with a downward bias and the resilience of Asian economies, particularly China.

We also continue to see a significant upswing in Asia ex-Japan corporate earnings – the consensus is for 20% growth for 2017 and 11% for 2018. While the earnings momentum may slow down in 2018 given a higher base, we expect steady demand and good cost discipline to support corporate margins and improve return on equity over the longer term.

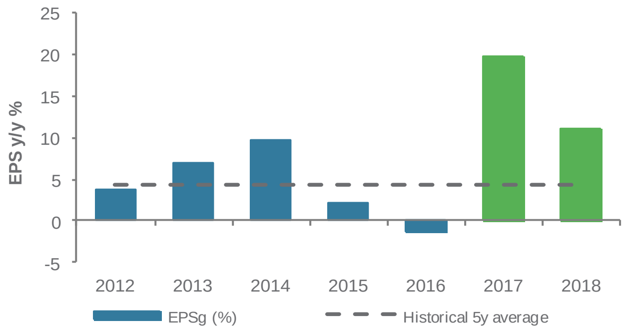
Valuations for Asia ex-Japan equities also remain relatively attractive, at a 12-month forward P/E of 13x, making it the second-cheapest market among the six major regions. We expect solid earnings growth and attractive valuations to drive increased foreign buying, which could trigger a further market re-rating.

China remains our preferred market within Asia ex-Japan. Drivers include a stronger CNY, domestic consumption strength and sustained liquidity support from Hong Kong's increasingly successful Stock Connect programmes.

We also reiterate our positive view on Korea equities. Valuations are compelling, with the 12-month forward P/E at a 33% discount to the region's. Although geopolitical tensions are a concern, strong upward earnings revisions and exposure to high-demand tech products are expected to enable valuation multiples to re-rate higher.

Figure 26: Asia ex-Japan's earnings growth above historical average

Consensus earnings growth expectations



Source: FactSet, MSCI, Standard Chartered

EM ex-Asia equities – Core holding

We see EM ex-Asia equities as a core holding. An improving EM GDP growth differential (versus Developed Markets [DMs]) and expectations of a range-bound to weak USD should support EM capital inflows and support EM ex-Asia valuations.

In addition, consensus earnings growth of 23% in 2017 is robust and above the five-year average of 4.9%. The recent moderation in EM ex-Asia earnings growth momentum could be offset by a recovery in commodity prices, particularly crude oil and iron ore. Such an outturn could lift margins and return on equity, which could help to narrow the current P/E valuation discount of 25% between EM ex-Asia and DMs.

Nevertheless, we remain cautious about the ongoing political risks in EM ex-Asia – in particular, the leadership election of South Africa's ruling African National Congress (ANC) party in December 2017. Concerns about policy stagnation and a shift towards populist initiatives could cap upside to South Africa equities. Trading at a P/E of 16x on 2017E, with downside earnings risk, South Africa equities are expensive.

Investors are also worried about Brazil's weak government, which had to postpone a plan to roll back payroll tax cuts that would have increased revenues by about BRL 4.8bn this year and BRL 13bn next year. Brazil is trading at an 8% discount to the historical average, but the 2018 presidential election remains a concern. Within EM ex-Asia, Brazil is our preferred market while South Africa is the least preferred.

Figure 27: EM ex-Asia's margins and commodity prices

EM ex-Asia's margins versus CRB index

Source: FactSet, MSCI, Standard Chartered

Japan equities – Core holding

Japan equities remain a core holding, with the corporate earnings outlook likely to be the key focus. The consensus is for 18% earnings growth in 2017 and 6.7% growth in 2018. Net profit margins have improved due to companies' cost-cutting efforts and a weaker JPY, which has been positive for exporters. Although the JPY has strengthened over the past two months, we expect this to be short-lived.

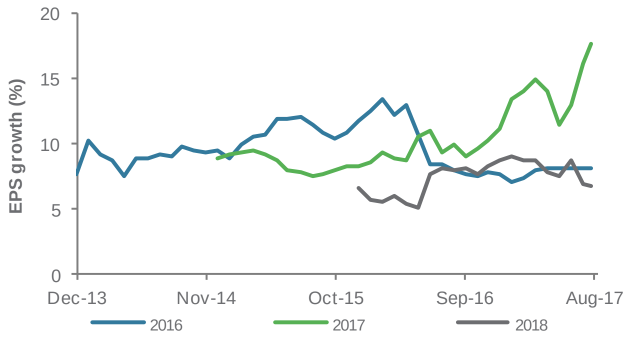
We also see prospects of an upturn in equity returns, mainly driven by increasing share buybacks, which rose to a record JPY 5.5trn in 2016. We see room for further upside surprises this year, given ample cash holdings among Japan's companies (at JPY 112trn as of March 2017). Further improvement in corporate governance at Japanese companies could be positive for Japan equities.

However, political uncertainty could hinder the rollout of economic policies. The loss of Prime Minister Shinzo Abe's Liberal Democratic Party in the recent Tokyo assembly elections means that a significant policy action ahead of the impending Japan's general election is less likely.

Overall, we retain Japan equities as a core holding. The positives from healthy EPS growth and further share buybacks could be partly mitigated by the lack of strong policy support. Trading at a P/E ratio of 14x, valuations are attractive compared with the long-term average of 17x.

Figure 28: Japan's EPS growth trend remains a driver

Japan's EPS growth trend



Source: FactSet, MSCI, Standard Chartered

US equities – Core holding

We continue to be more optimistic than the consensus towards US equities, viewing it as a core holding. While the S&P 500's technical picture has weakened in recent weeks, breaking below the closely watched 50-day moving average, a positive earnings season and a benign US rate outlook provide support for the market.

The Q2 US corporate earnings season was positive with consensus earnings expectations rising from 8% earnings growth at the start of July to 12% by the end. Companies in the industrials and financial sectors saw the biggest jump in earnings forecasts for the Q2 period.

Tax reforms appear to be back on the White House agenda. The treasury secretary believes that proposals for tax reforms will be agreed on before the end of the year, which would be very positive for US equities. However, a more likely scenario is unfunded corporate and income tax cuts, which may lead to a faster-than-expected rise in bond yields, putting equity valuations under pressure.

The decline in S&P 500 sector correlations has been positive for fund managers as it allows them to add value via stock selection (for example, by differentiating between higher and lower quality companies with similar valuations).

S&P 500 valuations remain high, both absolute and relative to the MSCI World. This reinforces the need to be prudent when deciding on the size of investments in the US market.

Figure 29: US valuations trade at a premium to MSCI World

US P/E ratio relative to MSCI World

Source: FactSet, MSCI, Standard Chartered

UK equities – Less preferred

We view UK equities as the least preferred among the six key regions/markets. Negotiators recently kicked off the third round of Brexit negotiations. The pre-meeting announcement that the UK wants to remain in the EU customs union for a 'transition period' after Brexit is significant. An agreement on this would reduce the 'cliff edge' risk that companies face if no trade deal is in place after Brexit.

The recent drop in the GBP and the recovery in commodity prices have helped the performance of the UK index, which is up 2% in the Q3 period in GBP terms. Consensus expectations for corporate earnings in 2017 are for 21% growth. However, in domestic demand orientated sectors there has been a series of profit warnings during the Q2 earnings season. This reflects weak household spending trends due to low wage growth and rising inflation.

UK market valuations are high despite the uncertain outlook. The market is trading at a 12-month forward P/E ratio of 15x consensus earnings expectations, which is significantly above the 10-year average P/E of 12x.

Focusing on other measures of market valuations, we note that the UK yield gap—the difference between benchmark bond yields and the equity market dividend yield—continues to widen. This is primarily driven by falling bond yields. While the equity dividend yield of 4.5% is attractive by global standards, there is some uncertainty about its sustainability, which is in part driving the widening dividend yield gap.

Figure 30: UK yield gap

UK benchmark bond yields less equity dividend yield

Source: FactSet, Standard Chartered

ESG investing

What is the rationale for ESG investing?

ESG (Environmental, Social, Governance) investing is the application of a set of agreed criteria (either positive or negative) to screen companies based on corporate sustainability and making the link to investment decisions. Examples of common criteria include those agreed at the UN Global Compact, the UN Principles for Responsible Investing or the Sustainability Accounting and Standards Board.

The reasons for adopting a 'sustainable' investment approach can vary, and this may not be performance-oriented alone. We believe there are three main reasons:

1. Specific types of outperformance

The evidence on whether an ESG-based investment strategy can outperform a global equities benchmark is mixed. While a majority of studies appear to point to a reasonably high likelihood of outperformance, this is also often sensitive to the way in which ESG is incorporated into an investment process. However, there is much stronger evidence that it does not impose a drag on returns.

Figure 31: Little difference between global ESG and all equities in recent past; EM ESG catching up rapidly

MSCI AC World TR, MSCI World ESG Leaders Index, MSCI EM Leaders Index

Source: Bloomberg, Standard Chartered

Where the evidence appears more compelling is that the incorporation of sustainability appears to support improved corporate performance in specific parts of the market.

Studies argue that the positive correlation between investment performance and ESG factors was stronger in bonds and real estate asset classes. Regionally, studies show the biggest benefits from incorporating ESG factors came from Emerging Markets (EMs).

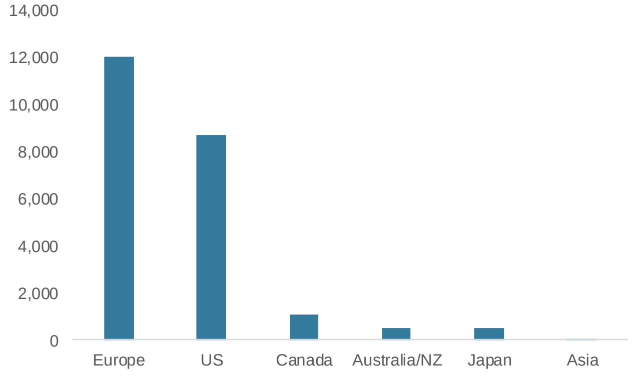
2. Better risk management

Regardless of one's view on ESG's contribution to outperformance, there is less doubt over the view that the incorporation of sustainability factors leads to improved risk management. Studies suggest ESG-compliant firms face lower costs of capital and a low risk premium due to greater transparency; such firms tend to face a lower risk that their assets become 'stranded assets' and worthless.

For an investor, this means that even if returns with and without ESG factors are similar, the same return may be obtained with less risk.

Figure 32: Considerable room for sustainable investing in Asia

Socially responsible assets by region, USD bn



Source: Global Sustainable Investment Alliance, Standard Chartered

3. Achieve sustainability goals

The above means there is a high likelihood that investors keen on having a positive sustainability impact are able to achieve this goal via ESG strategies without having to take on financial costs in terms of lower investment returns.

Equity derivatives

Ways to monetise our "neutral" macro recommendations

In the last Global Market Outlook, we discussed potential opportunities for investors to consider selling put options in China's insurance and property sectors. Helped by a stronger CNY versus USD, the more asset-heavy, old economy sectors in China have done well over the past few weeks.

As we approach an event-heavy September, such as the ECB meeting on 7 September and the likely announcement of Fed balance sheet reduction on 19-20 September, we believe volatility could return to equity markets in the short term. A potential pullback in spot prices, as well as the associated rise in volatility, may provide interesting opportunities to sell put options to generate income.

1. Euro area banks

Euro area banks are 'strong EUR beneficiaries'. We have closed our bullish EUR/USD view, because we believe most of the short-term positive drivers of EUR gains have already been factored in. Having said that, we remain constructive on the EUR over the medium term, as the Euro area economy recovers and the ECB is expected to reduce bond purchases in 2018, if not sooner. If the EUR falls towards 1.15, we believe selling puts on Euro area banks could be an interesting strategy for those seeking to generate attractive yields.

Figure 33: Six-month implied volatility 8ppt higher than the broad benchmark's volatility

Six-month implied volatility spread: Euro Stoxx 50 Banks versus Euro Stoxx 50

Source: Bloomberg, Standard Chartered
As of 24 August 2017

Currently, the six-month implied volatility spread of European banks over Euro Stoxx 50 is at 8ppt, which is the average spread since January 2014. However, if the EUR were to pullback to 1.15, we would expect more attractive opportunities for selling put options on European banks.

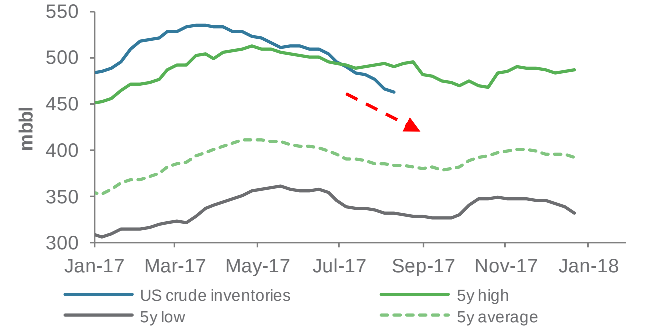
2. Oil companies

We have closed our bullish oil view, but continue to expect the market to rebalance, putting gradual upward pressure on oil prices over the coming 6-12 months. Demand growth remains in place, and US shale producers may not be able to sustain continued output gains without significant capital investments at some point.

However, this rebalancing has taken longer than we expected and OPEC is struggling to restrain the output of some members. Meanwhile, US shale producer costs fell more sharply than expected, although there are some signs that this is starting to reverse slightly.

Figure 34: Rebalancing happening, but slower than expected

US crude inventories, compared to 5y figures



Source: Bloomberg, Standard Chartered
As of 24 August 2017

On balance, we see a relatively small probability, at 25%, for crude oil to drop below USD 45/bbl over a 12-month horizon. In the short term, weak technical indicators mean a move towards USD 45/bbl is, however, possible. Should this happen, it could provide an opportunity to sell put options on oil companies for income.

Commodities

IMPLICATIONS
FOR INVESTORS

01 Oil prices to trade within USD 45-55/bbl range

02 Gold to remain range-bound

03 Modest retracement of base metal prices likely

Focus on fundamentals

- We expect commodities to rise modestly amid continued strength in global growth. Although any slowdown in China's growth remains the key risk.
- We retain our neutral view on oil as risks become more balanced; expect prices to remain largely contained within the USD 45-55/bbl range.
- Gold likely to return to USD 1,200-1,300/oz range, suggesting downside risk from here. Further USD weakness, though, would place this view at risk.

Figure 36: Commodities: key driving factors and outlook

Commodity	View	Inventory	Production	Demand	Real interest rates	USD	Risk sentiment	Comments
Oil	Neutral	Neutral	Neutral	Supportive	NA	Neutral	Neutral	OPEC cuts and slowing US shale production to support prices
Gold	Neutral	Neutral	Neutral	Not Supportive	Neutral	Neutral	Neutral	Gradually rising yields to weigh on gold
Metals	Neutral	Not Supportive	Not Supportive	Neutral	NA	Neutral	Neutral	Further retracement likely as supply headwinds persist

Source: Standard Chartered Global Investment Committee

Legend: Supportive, Neutral, Not Supportive, Preferred, Less Preferred, Neutral

Keeping an eye on risks

We retain our modestly constructive view on commodities on the back of an improving global backdrop and supportive demand-supply factors. Although the commodities complex remains centred around China's demand outlook, there is a risk of disruption if efforts to maintain China's growth slow after the Party Congress later this year. Geopolitical tensions (particularly in the Korean Peninsula), major weather events (such as Hurricane Harvey) and US politics are key risks, even though the impact on individual commodities would likely differ.

Oil markets have adjusted higher to several fundamental developments – namely, the recent strong run of demand data in Q2 and a reiteration of OPEC production cuts. We believe the bigger picture continues to be dominated by supportive short-term developments on supply and demand fronts. Supply-side factors, specifically relating to China's production restrictions, have likely been largely responsible for the outperformance of industrial metals of late, in our opinion. We remain cautious about chasing the rally as a meaningful pick-up in demand remains elusive, in our view.

Figure 35: Where markets are today

Commodity	Current level	1-month return
Gold (USD/oz)	1309	3.1%
Crude Oil (USD/bbl)	50.9	-2.6%
Base Metals (index)	129	9.0%

Source: Bloomberg, Standard Chartered

Crude oil – slower-than-expected rebalancing

Oil prices have remained relatively resilient amid strong seasonal demand, which has reduced US crude inventories.

We expect oil prices to remain range-bound, albeit with a positive bias. Nigerian and Libyan output have undermined OPEC production cuts, complicating producers' efforts to convince markets of its long-term commitment to support prices. However, Saudi Arabia's decision to reduce allocations to refiners (likely directed at US refiners) should support the continued draws in oil stocks.

Given where oil prices are today, a significant upside appears less likely as prices are close to the top of our expected range. Our long-term view remains one of flat-to-gradually higher oil prices over time, based on slowing supply growth and continued demand growth.

Gold – range-bound still a likely outcome

Geopolitical tensions in the Korean Peninsula continued to support gold prices and have also helped gains in gold mining sector equities. The metal has broken just above our expected USD 1,200-1,300/oz range, suggesting prices could be on a strong uptrend.

However, we are mindful that this jump mirrored the move lower in the USD, which, as we discuss elsewhere, is at risk of rebounding and potentially pushing gold lower. A rebound in US Treasury yields would also pose downside risks.

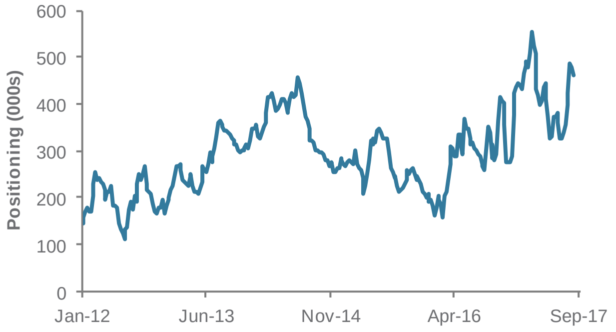
On balance, we continue to believe there is high likelihood of gold turning lower to its prior USD 1,200-1,300/oz range. However, gold would likely have to return to this range fairly quickly for the technical outlook to not improve significantly.

Industrial metals – remain cautious

Industrial metals' performance has held up. While each metal has its own idiosyncratic factors, we believe the narrative will converge in the latter half of the year. Copper prices rallied significantly recently, sparked by news of a potential ban on scrap imports by China, attributable largely to a renewed focus on environmental policies. However, we believe base metal prices may retrace modestly as demand has not improved meaningfully and the recent attrition in supplies is likely transitory.

Figure 37: Excessive net-long positioning highlights risk of pullback

NYME crude oil net positioning (000s)



Source: Bloomberg, Standard Chartered

Figure 38: Industrial metals (iron ore an exception) have held up

Copper, Aluminium, Zinc, Iron ore prices (indexed as of 1 January 2017)

Source: Bloomberg, Standard Chartered

Figure 39: What has changed – Oil

Factor	Recent moves
Supply	OPEC production continues to decline; US crude oil inventories decreased
Demand	Leading economic indicators in the US and China continue to expand
USD	Close to a one-year low; rebound a risk

Source: Standard Chartered

Figure 40: What has changed – Gold

Factor	Recent moves
Interest rate expectations	US yields have declined on the back of weaker-than-expected inflation data
Inflation expectations	Marginal decline in the US
USD	Close to a one-year low; rebound a risk

Source: Standard Chartered

Alternative strategies

IMPLICATIONS
FOR INVESTORS

01 Actively use both substitutes and diversifiers

02 Equity Hedge (most preferred) and Event Driven are long equity substitutes

03 Scenarios drive our allocation

Diversifiers act as a buffer

- We continue to favour Equity Hedge as our preferred strategy, given positively trending equity markets and a reflationary or muddle-through economic outlook.
- Credit spreads continue to trade at narrower levels, potentially improving the cost of funding and performance for leveraged Relative Value strategies.
- Equity Hedge, Event Driven and Relative Value delivered negative performance over the past month while Global Macro, a diversifying strategy, acted as a buffer; our alternative strategies allocation is up 3.6% since our *Outlook 2017.*

Following a framework for alternative strategies

When looking towards positioning alternative strategies within an investment allocation, we advocate using a 'substitutes' and 'diversifiers' approach. Substitutes have higher correlations to traditional asset classes (such as bond and equity), while diversifiers, with their lower correlations, could potentially provide insurance-like characteristics during market downturns. Using quantitative analysis together with qualitative inputs, we identified potential performance drivers for alternative strategies in our mid-year *Outlook* – see our framework provided below.

Relative Value strategies can often employ leverage to magnify returns from trading opportunities. As such, funding costs and consequently narrow credit spreads can impact the relative performance of their trading activity. Given current narrow credit spreads, funding costs may be more favourable when employing leveraged trades, potentially supporting Relative Value strategies.

Equity Hedge remains preferred, with an alternatives allocation as follows: Equity Hedge 34%, Event Driven 26%, Global Macro 16% and Relative Value 24%. For information on how to build an alternatives allocation, please refer to the *Outlook 2017* report.

Figure 41: Where markets are today

Alternatives	Since outlook	Since last publication
Equity Long/Short	3.9%	-0.6%
Relative Value	2.6%	-0.1%
Event Driven	6.3%	-0.4%
Macro CTAs	1.0%	0.8%
Alternatives Allocation	3.6%	-0.2%

Source: Bloomberg, Standard Chartered

Figure 42: Framework for alternative strategies

		Description	Key Drivers
SUBSTITUTES	**Equity Hedge**	In essence buying undervalued stocks and selling overvalued stocks	• Positively trending equity markets • Rising equity market dispersion
SUBSTITUTES	**Event Driven**	Taking positions based on an event such as a merger or acquisition	• Positively trending equity markets • Rising mergers and acquisitions
SUBSTITUTES	**Relative Value**	Looking to take advantage of differences in pricing of related financial instruments	• Lower interest rate levels • Cost of funding, narrowing credit spreads
DIVERSIFIER	**Global Macro**	Looking to exploit themes, trends and asset class relationships (correlations) at a global level, generally with leverage	• Increasing volatility, rising credit spreads • Increasing cross asset dispersion • Clear market trends (up/down)

Source: Standard Chartered Global Investment Committee

FX

IMPLICATIONS
FOR INVESTORS

01 We remain positive on the EUR over the medium term

02 Expect the JPY to weaken

03 Close conviction for the INR, IDR, BRL and RUB versus the EM FX index

USD to rebound near term

- The USD index is likely to rebound in the near term, but is likely to remain range-bound over the medium term, with a slight downside bias.
- We retain our medium-term bullish bias on the EUR, but use the recent strength to lock in gains as we expect near-term consolidation due to stretched positioning.
- Retain bearish bias on the JPY owing to our expectations of higher US Treasury yields and a continued accommodative policy from the BoJ.
- Emerging Market (EM) currencies to remain broadly stable versus the USD amid improving fundamentals and reduced external vulnerability. We no longer have the conviction that a basket of the INR, IDR, BRL and RUB will outperform the broader EM FX index.

Figure 44: Foreign exchange; key driving factors and outlook

Currency	View	Real Interest Rate Differentials	Risk Sentiment	Commodity Prices	Broad USD Strength	Comments
USD	Neutral	Neutral	Neutral	NA	NA	Monetary policy divergence with rest of the world is eroding
EUR	Preferred	Supportive	Supportive	NA	Neutral	Economic momentum argues for ECB stimulus withdrawal
JPY	Less Preferred	Not Supportive	Neutral	NA	Neutral	Remains tied to US 10-year yields
GBP	Neutral	Neutral	Neutral	NA	Neutral	Political and policy uncertainty to weigh in
AUD NZD	Neutral	Not Supportive	Supportive	Neutral	Neutral	Central banks likely to maintain policy for now
EM FX	Neutral	NA	Supportive	Neutral	Neutral	Low volatility and limited USD strength to remain supportive

Source: Bloomberg, Standard Chartered Global Investment Committee

Legend: Supportive Neutral Not Supportive Preferred Less Preferred Neutral

Figure 43: Where markets are today

FX (against USD)	Current Level	1-month change
Asia ex-Japan	108	0.9%
AUD	0.79	-1.0%
EUR	1.19	1.1%
GBP	1.29	-1.6%
JPY	110	0.4%
SGD	1.36	-0.1%

Source: Bloomberg, Standard Chartered

Looking for a short-term rebound in USD

- USD (DXY index) has declined over 8% YTD, owing to a material drop in real interest rate differentials and a reversal in investor positioning. Investor positioning data indicates markets are most bearish on the USD since 2013. Even a minor reversal in sentiment from the current extreme levels could support a near-term USD rebound. A rebound in 10-year US Treasury yields could be USD-supportive.
- Over the medium term, we maintain a modest bearish bias as the USD faces a number of headwinds. Several major central banks, including the ECB, the BoE and the BoC, are likely to reduce their accommodative policy, which would begin to move interest rate differentials against the USD.

EUR – remain constructive longer term

We have closed our bullish EUR view. The strength of the recent rally means the currency has become mildly expensive based on interest rate differentials and speculative long positioning is also high. Therefore, we believe we will see a period of consolidation or even a mild pullback. Recent EUR strength after the Jackson Hole meeting provides a better profit taking opportunity for clients who have not done so.

Over the medium term, we remain bullish EUR as most of the supportive drivers remain in place. We expect a reduction in ECB bond purchases to lead to narrowing of interest rate differentials and lower bond outflows. While Italian and Austrian elections remain a risk, overall political risks have receded significantly, in our opinion.

JPY – maintain bearish bias

We retain our bearish bias on the JPY and believe that its recent strength driven by lower US Treasury yields and safe-haven demand as transitory. Given the persistent challenge in spurring inflation, the BoJ is likely to retain its accommodative policy bias and continue with its yield curve control policy. This central bank policy divergence is likely to drive interest rate differentials between the US and Japan higher, leading to a weaker JPY.

The recent drop in the Abe administration's approval ratings, which could cause the continuity of Abenomics to be questioned, and safe-haven demand are key upside risks.

GBP – mired by uncertainty

The GBP is caught in the tug-of-war between the politics of Brexit negotiations and the recent hawkish rhetoric from the BoE. Given the contrasting forces, we believe the GBP is likely to remain range-bound over the medium term.

We believe the BoE will look through near-term inflation since a premature rate hike could end up hurting the economy more than higher inflation. In our opinion, two tailwinds for the UK economy—strong foreign direct investment inflows and consumer spending—are likely to wane. Thus, we believe the GBP is likely to be range-bound, until we see a significant catalyst from Brexit negotiations.

Figure 45: What has changed – G3 currencies

Factor	Recent moves
Real interest rate differentials	Moderately moved against the EUR. Moved in favour of the JPY and the GBP at the expense of the USD
Risk sentiment	Equity and FX volatility has risen from the lows of the past month. Still at a low level compared with historical averages
Speculator positioning	USD positioning remains net-short while EUR positioning is near extreme net long. JPY positioning remains significantly net-short while GBP positioning has normalised

Source: Bloomberg, Standard Chartered

Figure 46: Recent EUR strength has diverged from interest rate differentials

EUR/USD and real interest rate (interest rate net of inflation) differential

Source: Bloomberg, Standard Chartered

Figure 47: US Treasury yields remain the key driver for USDJPY

US-10year Treasury yields and USD/JPY

Source: Bloomberg, Standard Chartered

AUD – expect modest downside

The AUD has struggled to strengthen meaningfully after breaking out of its long-term range (0.784) last month. This validates our view last month that despite the technical break above the key resistance of 0.784, fundamentals did not warrant a sustained rally in the currency. We broadly maintain a range-bound stance, with a slight downside bias following the strong rally over the past two months.

We believe the RBA is unlikely to hike rates anytime soon. Given our expectations of higher US yields, we believe the interest rate differential between the US and Australia is likely to drop, reducing support for the AUD. Higher iron ore prices have been a key driver of the recent AUD rally. However, China's iron ore inventories stand close to record highs and demand from the real estate sector is likely to moderate on recent cooling measures, weakening the AUD.

Figure 48: Reversal in the recent iron ore rally could pose challenges for the AUD

AUD/USD and iron ore prices

Source: Bloomberg, Standard Chartered

Emerging Market currencies – fundamentals still supportive

The broader environment remains supportive of EM currencies. Major EM countries continue to grow at a healthy pace while their external vulnerabilities are declining.

That said, we have changed our view that a basket of the INR, IDR, BRL and RUB will outperform the broader EM FX index. Our original thesis that higher-yielding currencies with strong external positions would do well did work out, as the basket delivered positive returns. However, the call did not outperform on a relative basis as (i) a significant build-up of FX reserves in the four countries limited their currency strength and (ii) several idiosyncratic factors led to strength in other EM currencies. We remain positive on EM currencies broadly on a 12-month basis, but prefer to take a diversified exposure through EM local currency bonds.

Within Asian currencies, we expect a broadly stable CNY. While valuations are not demanding, we believe the authorities would prefer to maintain a stable USD/CNY to support exports and capital flows ahead of the key Party Congress later in November. The INR stands out as mildly expensive and could see reduced inflows into bonds due to nearly full utilisation of foreigner buying limits. In 2017, USD/SGD has shown a strong correlation to the broad USD index, something we expect to continue going forward.

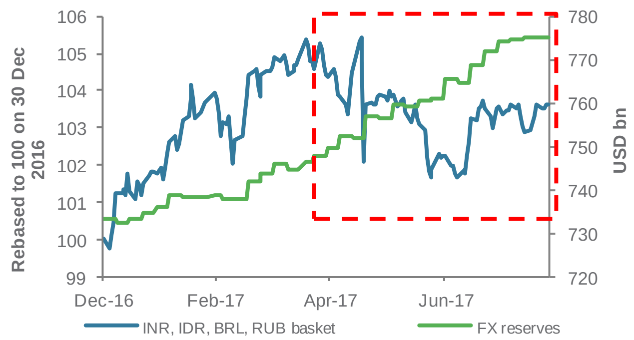
Figure 49: What has changed in Emerging Market currencies

Factor	Recent moves
USD	The USD has extended its weakness. Near-term rebound likely
China risks	China remains stable. The real estate sector is showing signs of a minor slowdown
Risk sentiment	EM USD government bond spreads remain range-bound

Source: Standard Chartered

Figure 50: FX reserve accumulation has coincided with weakness in the INR, IDR, BRL and RUB currency basket

INR, IDR, BRL, RUB basket and combined FX reserves from the four countries



Source: Bloomberg, Standard Chartered

Multi-asset

IMPLICATIONS FOR INVESTORS

01 Focus on EM sovereign bonds for income investors

02 Asia ex-Japan equities a key component of growth-focused allocation

03 Risk management via high quality assets provide stability to allocation

Good risk management rewarded

- A strong risk management framework should provide an element of stability against any short-term bouts of volatility.
- Risk management does not equate to the absence of risk in the allocation. Rather, it advocates a balanced approach with some exposure to high-quality assets such as Investment Grade (IG) fixed income.
- Broadening global growth has created opportunities within Emerging Market (EM) assets. Yield-focused investors can look to EM bonds while growth-focused investors can look to Asia ex-Japan equities.

In our last Global Market Outlook, we discussed the importance of fixed income as a risk management tool within an investor's allocation. Specifically, we wrote '*For equity investors enjoying the gains of the last few months, an allocation to fixed income should act as a good risk management tool and help preserve some of the profit in the event of market uncertainty'.* This approach helped both our balanced and multi-asset income allocations over the past month. While Developed Market (DM) equities witnessed a bit of a wobble (EM equities delivered positive returns), positive returns from high quality fixed income helped our allocations deliver a one-month return that was slightly positive.

The recent market experience reinforces the importance of strong risk management. Aside from periods of significant rise in yields, an allocation to quality fixed income could buffer against short bouts of volatility as we move further along in the economic cycle. However, good risk management does not equal the absence of risk in the allocation. This is especially relevant given the broader macro backdrop. We continue to see fundamentals as supportive of risk assets and thus retain our conviction that a balanced (growth-focused) allocation, which favours equities over corporate bonds, should outperform a multi-asset income focused allocation.

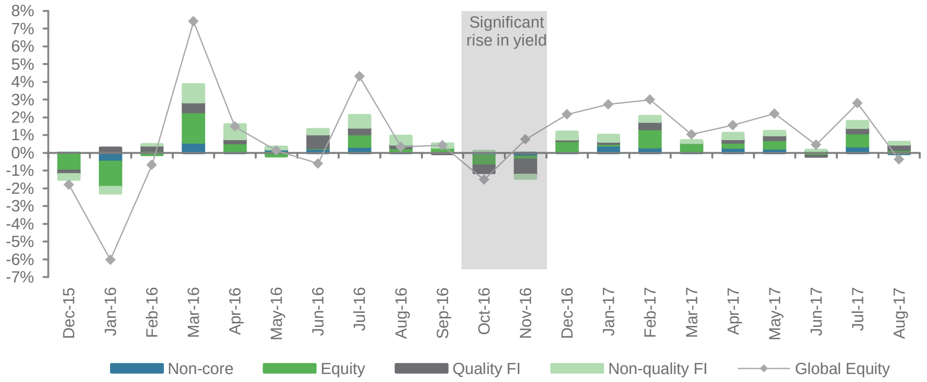
Figure 51: Key multi-asset views

Allocation Performance	Since Outlook	Since last publication
Balanced	11.5%	0.6%
Multi-asset Income	9.7%	0.6%

Source: Bloomberg, Standard Chartered

Figure 52: Allocation to quality fixed income could buffer against short bouts of volatility

Monthly returns of Multi-asset Income components vs. global equity (January 2016 to August 2017)



Source: Bloomberg, Standard Chartered; Quality FI includes G3 Sov, TIPS, DM IG Corp, EM HC Sov IG, Asia IG Corp. Non-quality FI includes Leveraged loans, US HY, EM HC Sov HY, EM LC Sov.

Make space for Emerging Markets

EM assets have climbed up the rankings within our investment views, from both equity and fixed income perspectives, over the course of 2017. EM USD government and EM local currency government bonds are the two preferred holdings within fixed income, while Asia ex-Japan and non-Asia EM are our second and third most-preferred equity markets, after the Euro area.

With the spotlight (and significant outperformance) focused on DM assets for the past eight years, investors may well still be under-exposed to EM assets within their allocation. Multi-asset income investors could look to add EM sovereign bonds that offer an attractive yield (5-6%) amid improving fundamentals of the underlying nations. Growth-focused investors can look to Asia ex-Japan equities to capture the benefits of improving growth prospects in EMs as well as improving corporate earnings.

EM assets generally carry a higher risk than their DM counterparts and could suffer in the event of a USD rebound. However, it is important to look at these assets as part of a diversified allocation rather than on a standalone basis.

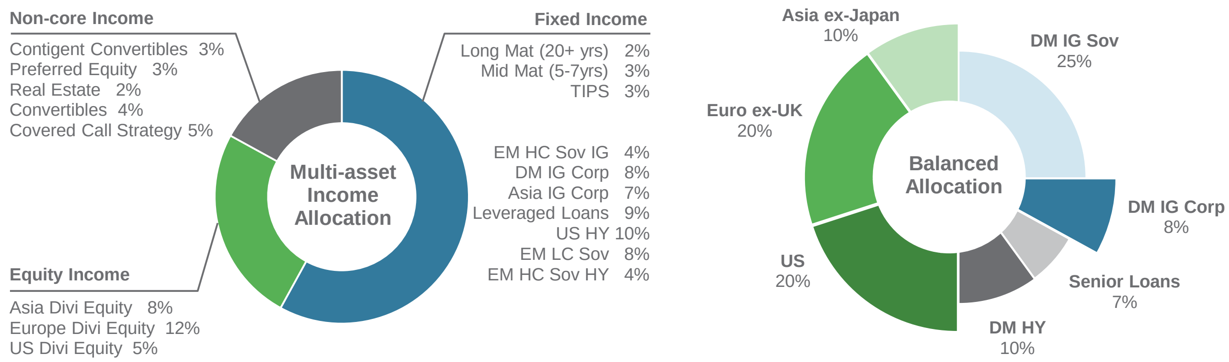
An allocation to these assets could boost the yield profile for an income investor and add to the capital appreciation potential for a growth-focused investor. Our suggested allocations below and on page 31 can serve as a guideline.

Broad exposure to EM local currency bonds

We close our position in INR bonds and roll the proceeds into the EM local currency bond allocation. Our INR bond allocation (3%) was initiated in December 2014 within the multi-asset income strategy. It has performed admirably since then, delivering 29% in cumulative returns versus the broader EM local currency bond index, which returned 11% over the same period.

However, given the strong run we have seen in INR bonds, we prefer to take a diversified approach to investing in this asset class going forward. We give up about 1% in yield based on this switch, but believe the risk-reward is more balanced as a result of this diversified approach. This further adds to our EM local currency bond allocation, where we first initiated an allocation in our mid-year *Outlook* on 30 June 2017.

Figure 53: Revised multi-asset income allocation and balanced allocation (asset class weight in %)



Source: Standard Chartered

Figure 54: A three-pronged approach to assessing income assets

Income potential, capital growth and risk of pullback

Asset Classes	Yield	Income potential	Capital growth	Risk of pullback	Comments
Fixed Income	**4.3**	🟡	🟡	🟡	**Portfolio anchor; source of yield; some pockets of value, but not without risks**
Leveraged Loans	**5.1**	🟢	🟡	🟡	Attractive alternative to traditional HY exposure; senior in capital structure to simple HY bonds; small yield penalty in return; returns positively correlated to short-term US interest rates, but loan callability a risk
Corporate - US HY	**5.7**	🟢	🟡	🟡	Valuations remain elevated; attractive yields; default rates contained
EM HC Sovereign Debt	**5.2**	🟢	🟡	🔴	Need to be selective given diverse risk/reward in IG, HY bonds; high sensitivity to a rise in US interest rates a risk; commodity exposure may be a support; valuations reasonable
EM LC Sovereign Debt	**6.1**	🟢	🟡	🔴	Carry play; policy rates mostly flat or falling; foreign demand a recent risk. FX stability a positive
Investment Grade*	**2.4**	🔴	🟡	🟡	Portfolio anchor, structural carry; some interesting ideas, but interest rate sensitivity a risk
Corporate - DM IG*	**2.4**	🔴	🟡	🟡	Yield premiums have narrowed, but prices fair; long-term US corporate bonds look appealing if Fed hiking cycle muted
Corporate - Asia IG	**3.4**	🟡	🟡	🟢	Cautiously positive. Fairly valued, marginally improving credit quality; key risks include concentration risk from Chinese issuers and risk of lower regional demand
TIPS	**1.6**	🔴	🟢	🟡	Offers value as an alternative to nominal sovereign bonds; impact of a rate rise similar to G3 sovereigns, but offers exposure to a further rise in US inflation
Sovereign*	**1.4**	🔴	🔴	🟡	QE offers strong anchors for sovereign yields, but little, if any, value is left. Risks include rate hikes and higher inflation. Prefer higher-yielding/high-quality markets (US, AU, NZ)
Equity Income	**4.6**	🟡	🟡	🔴	**Key source of income and modest upside from capital growth**
North America	**3.2**	🔴	🟡	🟡	Fair to slightly rich valuations; low yields; some sectors attractive
Europe	**5.7**	🟢	🟢	🟡	Fair valuations; attractive yields; overhang from political risk, mitigated by improving global growth outlook; improving momentum
Asia ex-Japan	**4.0**	🟡	🟢	🔴	Good payouts; selectively attractive valuations, but pullback a risk from challenges in China/US growth, earnings, Fed and leverage.
Non-core Income	**4.3**	🟡	🟡	🟡	**Useful diversifier for income and growth**
Preferred	**5.4**	🟢	🟡	🔴	Attractive yields and exposure to financials; risk from higher rates may not be completely offset by improvement in banks' underlying credit
Convertibles	**3.6**	🟡	🟡	🟡	Moderate economic expansion and gradual pace of rate hikes should be good for converts. Risk: policy mistake
Property	**3.9**	🟡	🟡	🔴	Yield diversifier; stable real estate market; risk from higher rates, valuations stretched in some regions. Potential for large pullbacks
Covered Calls	**3.9**	🟡	🟡	🟡	Useful income enhancer assuming limited equity upside
Cocos	**4.9**	🟡	🟡	🔴	Yields have fallen sharply; relatively low sensitivity to rising yields and improving bank credit quality over the past few years

Source: Bloomberg, Standard Chartered Global Investment Committee; Yield data as of 29 August 2017; *Yield data as of 31 July 2017
For indices used, refer to the end note at the conclusion of this section
Please note: The Financial Conduct Authority (FCA) has introduced Permanent Marketing Restrictions on the sale of CoCos to residents of the EEA

Legend: 🟢 Attractive potential/low risk 🟡 Moderate potential/medium risk 🔴 Unattractive potential/high risk

Market performance summary*

Source: MSCI, JPMorgan, Barclays, Citigroup, Dow Jones, HFRX, FTSE, Bloomberg, Standard Chartered

*All performance shown in USD terms, unless otherwise stated

*YTD performance data from 31 December 2016 to 30 August 2017 and 1-month performance from 30 July 2017 to 30 August 2017

Equity

	Year to date	1 month
Global Equities	14.4% ↑	-0.1% ↓
Global High Dividend Yield Equities	12.5% ↑	0.2% ↑
Developed Markets (DM)	12.8% ↑	-0.4% ↓
Emerging Markets (EM)	28.2% ↑	2.5% ↑
BY COUNTRY		
US	11.0% ↑	-0.4% ↓
Western Europe (Local)	7.9% ↑	-0.8% ↓
Western Europe (USD)	18.2% ↑	-0.2% ↓
Japan (Local)	5.1% ↑	-1.2% ↓
Japan (USD)	11.2% ↑	-0.5% ↓
Australia	12.3% ↑	-1.2% ↓
Asia ex- Japan	31.1% ↑	1.9% ↑
Africa	19.4% ↑	1.6% ↑
Eastern Europe	9.2% ↑	6.9% ↑
Latam	24.5% ↑	4.6% ↑
Middle East	6.2% ↑	1.3% ↑
China	41.6% ↑	4.9% ↑
India	28.3% ↑	-0.7% ↓
South Korea	30.5% ↑	-1.2% ↓
Taiwan	26.9% ↑	1.9% ↑
BY SECTOR		
Consumer Discretionary	13.3% ↑	-1.4% ↓
Consumer Staples	12.0% ↑	-0.5% ↓
Energy	-6.0% ↓	-2.2% ↓
Financial	13.3% ↑	-1.1% ↓
Healthcare	15.3% ↑	-0.5% ↓
Industrial	14.3% ↑	0.0% ↑
IT	28.7% ↑	2.0% ↑
Materials	17.9% ↑	2.2% ↑
Telecom	7.0% ↑	-0.7% ↓
Utilities	16.7% ↑	3.2% ↑
Global Property Equity/REITS	9.8% ↑	-0.2% ↓

Bonds

	Year to date	1 month
SOVEREIGN		
Global IG Sovereign	7.8% ↑	1.4% ↑
US Sovereign	3.0% ↑	0.9% ↑
EU Sovereign	12.8% ↑	2.6% ↑
EM Sovereign Hard Currency	8.7% ↑	1.6% ↑
EM Sovereign Local Currency	13.5% ↑	1.5% ↑
Asia EM Local Currency	9.2% ↑	0.7% ↑
CREDIT		
Global IG Corporates	7.8% ↑	0.9% ↑
Global HY Corporates	8.6% ↑	0.6% ↑
US High Yield	5.9% ↑	-0.2% ↓
Europe High Yield	17.8% ↑	1.3% ↑
Asia High Yield Corporates	5.4% ↑	1.1% ↑

Commodity

	Year to date	1 month
Diversified Commodity	-4.5% ↓	-1.6% ↓
Agriculture	-11.4% ↓	-8.9% ↓
Energy	-18.8% ↓	-2.8% ↓
Industrial Metal	19.5% ↑	9.0% ↑
Precious Metal	11.2% ↑	3.4% ↑
Crude Oil	-13.5% ↓	-2.6% ↓
Gold	13.6% ↑	3.1% ↑

FX (against USD)

	Year to date	1 month
Asia ex- Japan	4.8% ↑	0.9% ↑
AUD	9.7% ↑	-1.0% ↓
EUR	13.0% ↑	1.1% ↑
GBP	4.7% ↑	-1.6% ↓
JPY	6.1% ↑	0.4% ↑
SGD	6.6% ↑	-0.1% ↓

Alternatives

	Year to date	1 month
Composite (All strategies)	3.4% ↑	-0.1% ↓
Relative Value	2.4% ↑	-0.1% ↓
Event Driven	5.3% ↑	-0.3% ↓
Equity Long/Short	4.2% ↑	-0.5% ↓
Macro CTAs	0.8% ↑	0.7% ↑

Events calendar

2017

JULY
- **01** India rolls out nationwide Goods and Services Tax (GST)
- **07-08** G20 Summit in Germany
- **20** BoJ policy decision
- **20** ECB policy decision
- **27** FOMC policy decision

AUGUST
- NA

SEPTEMBER
- **24** Germany's General Elections
- **07** ECB policy decision
- **21** FOMC policy decision
- **21** BoJ policy decision

OCTOBER
- **X** China's 19th National Party Congress
- **26** ECB policy decision
- **31** BoJ policy decision

NOVEMBER
- **02** FOMC policy decision

DECEMBER
- **14** ECB meeting
- **14** FOMC policy decision
- **21** BoJ policy decision

2018

JANUARY
- **23** BoJ policy decision
- **25** ECB policy decision

FEBRUARY
- **01** FOMC policy decision
- **X** Italy general elections

MARCH
- **08** ECB policy decision
- **09** BoJ policy decision
- **22** FOMC policy decision

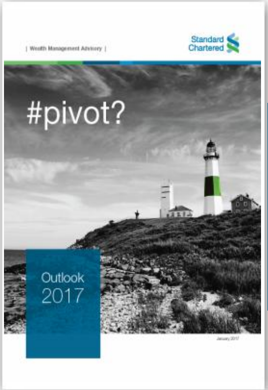
APRIL
- **26** ECB policy decision
- **27** BoJ policy decision

MAY
- **03** FOMC policy decision

JUNE
- **14** FOMC policy decision
- **14** ECB policy decision
- **15** BoJ policy decision

Legend: **X** – Date not confirmed | **ECB** – European Central Bank | **FOMC** – Federal Open Market Committee | **BoJ** – Bank of Japan

Wealth management advisory publications



Annual

Annual Outlook

Highlights our key investment themes for the year, the asset classes we expect to outperform and the likely scenarios as we move through the year.

Weekly

Weekly Market View

Update on recent developments in global financial markets and their implications for our investment views.

Monthly

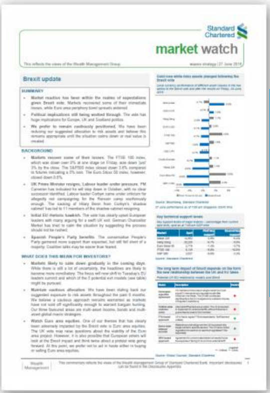
Global Market Outlook

Our monthly publication captures the key investment themes and asset allocation views of the Global Investment Committee.

Weekly

FX Strategy

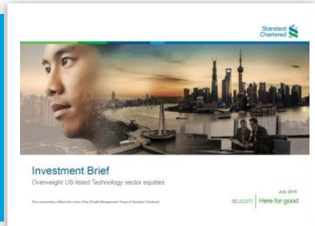
Weekly update on our currency market views, predominantly from a technical standpoint.



Ad hoc

Market Watch

Analyses key market developments and their likely impacts on our investment views.



Ad hoc

Investment Brief

Highlights our key investment themes for the year, the asset classes we expect to outperform and the likely scenarios as we move through the year.

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Disclosure appendix

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