# Global Market Outlook

## US dollar to reign short term?

**Equities remain our preferred asset class** as strong global growth and corporate earnings provide support, despite elevated valuations. Seasonality is usually more favourable in Q4/Q1, but the lack of seasonal weakness over the summer months means this factor may be less reliable than normal.

**We believe diversifying across different asset classes – Emerging Market (EM), Developed Market (DM), equities and bonds – is important**, especially in the current environment. We tilt our preference towards balanced strategies over multi-asset income, though the latter could also deliver positive returns.

**A US dollar rebound is expected over the next three months.** This is likely to prove a significant headwind for EM currencies, though we would use any pullback to add to EM equities.

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# Investment strategy

**IMPLICATIONS**
FOR INVESTORS

**01** Global equities continue to be our preferred asset class

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

**03** Balanced strategies offer an attractive risk/reward, but multi-income remains well supported

## US dollar to reign short term?

- Equities remain our preferred asset class as strong global growth and corporate earnings provide support, despite elevated valuations. Seasonality is usually more favourable in Q4/Q1, but the lack of seasonal weakness over the summer months means this factor may be less reliable than normal.
- We believe diversifying across different asset classes – Emerging Market (EM), Developed Market (DM), equities and bonds – is important, especially in the current environment. We tilt our preference towards balanced strategies (include allocations to growth equities) over multi-asset income (more focused on corporate bonds and high dividend equities), though the latter could also deliver positive returns.
- A US dollar rebound is expected over the next three months. This is likely to prove a significant headwind for EM currencies, though we would use any pullback to add to EM equities.

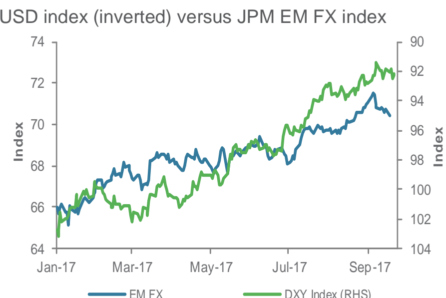
The last month has been characterised by rising tensions in the Korean peninsula and two large hurricanes hitting the US. However, market volatility (measured by the VIX) as well as global and Asian equity markets remained largely unmoved.

The lack of a pick-up in inflation remains a key puzzle in the economic landscape. Nonetheless, we expect to gradually pivot towards a reflationary scenario, when inflation increases moderately. In its latest meeting, the Fed reaffirmed its expectation of higher inflation and announced the start of reduction in the size of its balance sheet – a reversal of the extraordinary measures it took in the wake of the global financial crisis.

The global growth picture remains robust, although the US may see a near-term slowdown in activity due to the hurricanes. We expect the macroeconomic environment to remain in transition between 'muddle-through' and 'reflationary', driven by gradually accelerating economic growth. Both environments augur well for global equities, in our opinion.

Figure 1: The USD is a key driver of EM FX

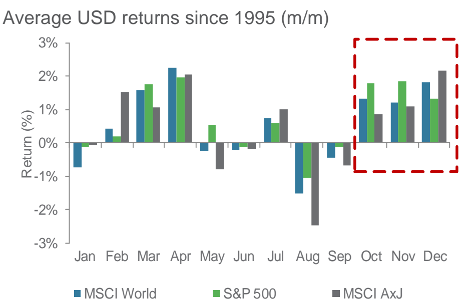
USD index (inverted) versus JPM EM FX index




Source: Bloomberg, Standard Chartered

Figure 2: Q4 usually a strong period for equities

Average USD returns since 1995 (m/m)




Source: Bloomberg, Standard Chartered

## Entering a seasonally strong period

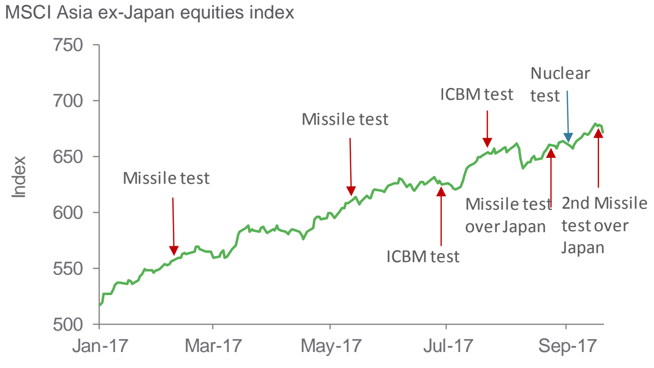
We retain our positive view on global equities, particularly in our preferred regions – the Euro area and Asia ex-Japan. Both regions continue to benefit from a positive economic backdrop, robust earnings growth and relatively moderate valuations compared with other regions. EM ex-Asia, Japan and the US are our other core equity holdings.

We believe robust growth fundamentals outweigh the risks from idiosyncratic events. The resilience of equity markets to the US hurricanes and tensions in the Korean peninsula has thus far vindicated our view. Any pullbacks are likely to be short-lived unless we see a significant escalation of risks that sustainably undermine the fundamentals of strengthening growth and low inflation. Absent those, we would use any pullback as an opportunity to add exposure to equities.

Seasonal effects are becoming more supportive. Historically, Q4 and Q1 have proven to be among the best periods for equity markets. Global equities have delivered positive returns in Q4 in each of the last eight years. That said, we should note that the summer months did not see a seasonal pullback, which highlights the risks of relying solely on seasonal patterns when it comes to investing. The good news is both fundamental and technical indicators have improved over the past month and should be supportive of global equities over the next 6-12 months.

Figure 3: Asian equity markets have been resilient to North Korea's military posturing

MSCI Asia ex-Japan equities index




Source: www.armscontrol.org, Bloomberg, Standard Chartered

## Near-term USD rebound a risk to EM assets

The DXY index declined nearly 10% this year. While we remain mildly bearish on the USD over the next 12 months, we believe the recent sell-off has been somewhat overdone.

In its latest meeting, the Fed reaffirmed its expectations for an uptick in inflation. It continues to expect four rate hikes by end 2018. This has helped reverse the market's extreme bearish view on the USD. We are reasonably confident that the 92 support for the USD index is likely to hold.

Therefore, a 3-5% rebound in the USD over the next three months can be expected owing to a revival of the Fed's rate hike expectations and the unwinding of the short speculative positioning. This could pose a challenge for EM asset returns, through weaker EM currencies, in the short term.

## Locking in EM local currency bond gains

Historically, FX returns have been a significant contributor to local currency bond returns. Given the risk of a short-term rebound in the USD, we move EM local currency bonds from a preferred to a core holding.

We remain positive on EMs owing to a pick-up in growth, stronger external balances and a lower risk of trade tensions. EM assets remain relatively more attractive than DM ones.

We continue to hold a positive view on EM USD government bonds that are less sensitive to USD strength and continue to offer an attractive yield of over 5% for a mix of Investment Grade and High Yield credit quality.

We maintain our conviction in multi-asset income strategies and expect them to give positive returns. We believe modest inflation and the expectation that 10-year US yields are likely to remain within 2.25-2.75% are supportive of income-oriented strategies. On a total return basis, we expect multi-asset balanced strategies to outperform the income basket as they have greater allocation to growth equities.

Geopolitics, especially related to North Korea, and expected (albeit gradual) policy tightening by the Fed and the ECB are likely near-term risks (see pages 8 and 9). Although we believe the constructive macroeconomic backdrop should support risk assets at least over the next 12 months.

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

| Asset class | Sub-asset class | Relative outlook | Rationale |
|---|---|---|---|
| Multi-asset Strategies | Multi-asset Income | Overweight | Low policy rates, low absolute yields expected to remain a support |
| | Multi-asset Macro | Underweight | Reduced need for insurance-like assets amid continued growth |
| Equities (Overweight) | Euro area | Overweight | Earnings outlook robust; Valuations modest; Currency gains not a major risk yet |
| | Asia ex-Japan | Overweight | Earnings uptick positive; Valuations reasonable; Trade tensions long-term risk |
| | Non-Asia EM | Neutral | Commodities key to earnings; Valuations mixed; Flows positive; Politics a risk |
| | Japan | Neutral | JPY key to earnings; Valuations reasonable |
| | US | Neutral | Earnings improvement supportive; Elevated valuation a key risk |
| | UK | Underweight | Brexit talks cloud earnings outlook; Full valuations; GBP rebound a risk |
| Bonds (Neutral) | EM government (USD) | Overweight | Attractive yield; Reasonable valuations; High rate sensitivity, USD are risks |
| | EM government (local currency) | Neutral | Attractive yield; short-term USD rebound is a headwind |
| | Asian USD bonds | Neutral | Moderate yield; Reasonable valuations; Demand/supply favourable |
| | DM HY corporate | Neutral | Attractive yield; Declining default rates; Expensive valuation |
| | DM IG corporate | Neutral | Moderate yield; Full valuations; Defensive characteristics |
| | DM government | Underweight | Low yield; Full valuations; Fed policy, higher inflation, yield rebound are risks |
| Currencies | EUR | Overweight | Economic momentum positive, but some consolidation likely after strong rally |
| | USD | Neutral | Longer-term risks to the downside, but likely to rise short term |
| | GBP | Neutral | Political and policy uncertainty to weigh in; sell the recent rebound |
| | EM currencies | Neutral | Short-term stronger USD negative, long-term EM fundamentals constructive |
| | AUD | Neutral | Status quo in RBA policy and weaker iron ore prices likely to limit rally |
| | JPY | Underweight | 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 | – | ✓ |
| 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** |
| EM LC government bonds to outperform broader bond universe (as of 21-09-2017) | 23-Jun-17 | – | ✓ |
| 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 15 Dec 2016 (release date of our 2017 Outlook) to 28 September 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 BRL, RUB, IDR and INR currencies
[5] Income allocation is as described in 'Outlook 2017: #pivot', Figure 11, page 34
[6] Balanced allocation is a mix of 50% global equity and 50% global fixed income

✓- 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

### Is low inflation something to celebrate or worry about?

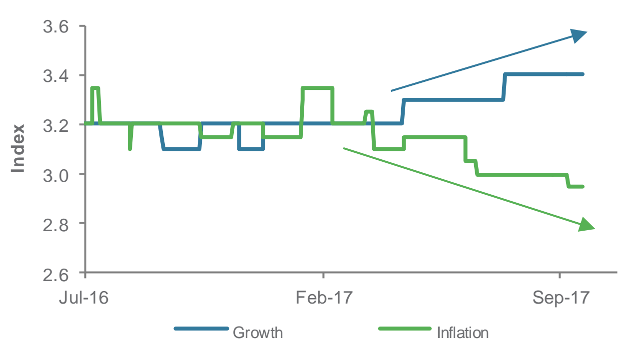
For now, it reaffirms the 'Goldilocks' economy, where global growth expectations are being revised higher and inflation remains benign. This environment has been particularly positive for equity markets, but has also supported returns for bonds and multi-asset income strategies.

Such a benign outlook is unlikely to extend over the long term. Either inflationary pressures will rise or financial excesses will build, both of which would be challenging for asset markets, albeit in very different ways.

In some ways the late 1990s situation was similar to the current one. Growth then was above trend, unemployment was falling towards 4% and inflationary pressures were benign (see Figure 7). Against this backdrop, the equity market did very well. From when Alan Greenspan famously questioned whether markets were 'irrationally exuberant' (with a trailing P/E ratio of 19) in December 1996, the S&P500 index more than doubled in just over three years.

Figure 6: Economic outlook remains constructive

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

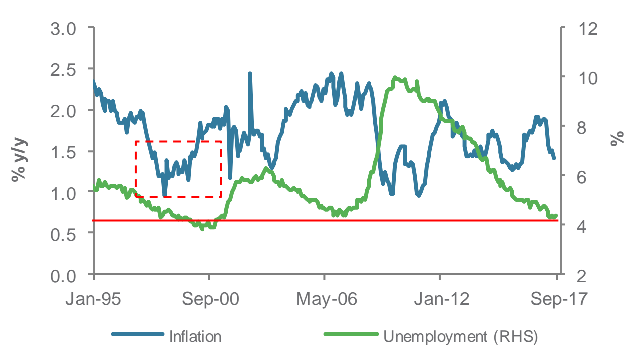



Source: Bloomberg, Standard Chartered

What does this mean in the current context? One simplistic way of looking at equity markets is through a dual lens of valuations and the macro outlook. The macro environment matters less when valuations are very low (a sub-10 P/E ratio) or when they are very high (over 30) as the bad/good news has likely been priced in, respectively.

Figure 7: Some similarities between late 1990s and now

Inflation (core PCE deflator) was low in the late 1990s despite unemployment rate falling towards 4%




Source: Bloomberg, Standard Chartered

Of course most of the time the P/E ratio is between these extremes. Today, our view is that global equity market valuations are high at 21.5x (but not extreme) and the macro environment is still improving. Balancing these factors, we continue to maintain a greater-than-normal allocation to equities.

Factors that would lead us to review this positioning include a sharp acceleration in inflation, signs of significant financial excesses and/or a sharp rise in equity market valuations.

## What is the likely impact of North Korea tensions?

While geopolitical risks are always difficult to quantify, especially from a financial market perspective, we believe cooler heads will ultimately prevail. There is no incentive for either side to start a war.

For North Korea, inducing a conflict would increase the risks that the US would push for a regime change, which is exactly the thing that President Kim wants to avoid. For the US, the potentially catastrophic implications for South Korea, should the North retaliate against a US-induced conflict, are likely to encourage calmer heads to prevail.

Of course, this does not preclude periodic volatility should North Korea continue to test missiles, especially if it demonstrates new military capabilities. We see increasingly stern rhetoric. Indeed, we cannot rule out a limited conflict, which could be started by an accident tied to a missile test.

However, overall, we believe that any market volatility generated by US-North Korea tensions is likely to be short-lived.

## What are the implications of the Fed decision to reduce the size of its balance sheet?

The Fed maintained its projection to hike rates four times by end 2018 and confirmed plans to start reducing its bond holdings by USD 10bn per month. This is a sign that it expects the economy to remain robust and inflation to gradually pick up over the next 6-12 months, the near-term impact of the hurricanes notwithstanding.

While the bond holding reduction plan was telegraphed well in advance and is likely to have already been factored in, markets are still pricing in a little less than two rate hikes by end 2018. Therefore, if the Fed does deliver on the projected

four rate hikes instead, it is likely to create a headwind for global bond markets.

We expect US 10-year Treasury yields to rise moderately and remain within 2.25-2.75%, pencilling a slightly slower

pace of rate hikes than the Fed, given the low likelihood of any substantial increase in inflation.

As discussed above, we believe global equity markets are likely to be dominated by the positive fundamental outlook, rather than the Fed's monetary policy.

## What is the outlook for the USD?

The USD has fallen around 10% so far this year on the back of declining real interest rate differentials. However, we believe the stage is set for a short-term counter-trend move. Speculative market positioning has swung from being very long USD at the beginning of the year to becoming very short USD today. This creates the risk of a 'short squeeze' whereby a slight improvement in fundamentals leads speculators to buy USDs to cover their short positions.

One potential source of positive surprise comes from the Fed's monetary policy outlook (see above). Markets will be keen to see how severely the hurricanes will impact the economy and how the Fed responds to these uncertainties.

Overall, we expect the USD to rebound from oversold levels and initially test the 96-98 area.

Figure 8: USD sitting just above key support

USD (DXY) index

Source: Thomson Reuters, Standard Chartered

## What does this USD outlook mean for bond investors?

When the USD bounces, it is normal for this strength to be largely broad-based. In Developed Markets, we see the EUR, the AUD and the JPY as the most vulnerable, while the CAD and the GBP may be more resilient.

As far as Emerging Market (EM) currencies are concerned, we expect the strong local currency gains since the start of the year to be reversed to some extent. Against this backdrop, we have tempered our bullish view on EM local currency government bonds. EM USD government bonds remain our preferred area of global bonds, with Asia corporate USD bonds (especially Investment Grade bonds) and EM local currency government bonds ranked joint second.

This 'downgrade' to the near-term outlook for EM local currency bonds has been supported by signs that global investors have continued to invest money in EM USD bonds, while the inflows to local currency bonds have reduced.

# 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 stimulus to support growth

## Improving growth, subdued inflation

- **Core scenario:** Economic data surprises in major economies have turned positive, helped by a recovery in the US (despite near-term headwinds from the hurricanes), and an upturn in the Euro area and Japan. Inflation expectations remain subdued.
- **Policy outlook:** The Fed's plan to raise rates four more times by end 2018 is slightly faster than what we have pencilled in. The ECB is likely to start reducing stimulus next year, while China is likely to keep a tight leash on credit growth.
- **Key risks:** a) Geopolitics (North Korea) has climbed in the ranking of risk factors; b) Tighter monetary policy driven by an inflation surprise (in the US) or a greater focus on financial stability (in China); c) Deflation downside from a China slowdown.

### Core scenario

The global economy continued to improve, with Developed economy data surprises turning positive for the first time since June and Emerging economies continuing to surprise positively. The increasingly synchronised global growth backdrop means our Global Investment Committee (GIC) continues to assign a combined 75% probability to 'reflation' or 'muddle-through' scenarios unfolding over the next 12 months. Inflation and deflation risks are broadly balanced, but low (about 10% probability each), as inflation expectations remain subdued despite declining slack. Given this benign inflation outlook, we still expect the Fed to raise rates at a more gradual pace than what it confirmed this month (ie, four rate hikes by end 2018). Geopolitical risks have increased, especially after North Korea's nuclear weapon and intercontinental ballistic missile tests.

Figure 9: Global growth outlook remains broad-based, while inflation remains subdued

| Region | Growth | Inflation | Benchmark rates | Fiscal deficit | Comments |
|---|---|---|---|---|---|
| US | Green | Amber | Red | Green | Hurricanes likely to be short-term negative, long-term positive for growth. Focus remains on tax reform. Fed on course to gradually tighten policy |
| Euro area | Green | Amber | Amber | Amber | Growth expectations continue to be revised higher, although inflation remains tepid. The ECB may start withdrawing stimulus in 2018 |
| UK | Red | Red | Amber | Amber | Rising inflation, slowing wages hurting demand. Brexit talks remain key risk. The BoE signals possible rate hike as inflation closes in on 3% |
| Japan | Green | Amber | Amber | Amber | Growth upgrades continue as Abe calls snap elections. The BoJ to maintain easy monetary policy as deflationary pressures remain |
| Asia ex-Japan | Amber | Amber | Amber | Green | China's economy slows gradually as focus turns to financial stability. India may boost fiscal spending in a bid to revive growth |
| EM ex-Asia | Green | Green | Green | Amber | Brazil and Russia cut rates further amid falling inflation. There is still room for further rate cuts |

Source: GIC views

**Legend:** Green = Supportive of risk assets; Amber = Neutral; Red = Not supportive of risk assets

## US – rebuilding after hurricanes

**Reconstruction, tax reforms top of agenda.** US data surprises were turning less negative before the two major hurricanes that impacted southern US. The hurricanes are likely to cloud near-term data, although reconstruction activity is likely to support growth in the next few quarters. President Trump remains invested in enacting tax reforms – success here could help revive US business spending.

**Fed sticks with rate hike plan.** The Fed's plan to start balance sheet tightening from October was telegraphed well in advance. However, we expect a slightly slower pace of rate hikes than the Fed (which forecasts four more rate hikes by end 2018), given still-subdued inflation expectations.

## Euro area – broad-based growth

**Southern slack to sustain expansion.** The Euro area continues to see growth upgrades, with growth rates in Italy gradually catching up with those in France and Germany. Significant slack remains across southern Europe, which should sustain the expansion for some more quarters without inducing a significant rise in inflation (even though the overall region is growing above trend). The re-election of Chancellor Angela Merkel for a fourth term in Germany is positive for Euro area policy continuity.

**ECB to withdraw stimulus.** As growth broadens, the ECB is likely to taper its bond purchases from 2018 (although low inflation suggests the process is likely to be gradual). There is a risk the recent EUR strength could tighten financial conditions, delaying ECB tapering.

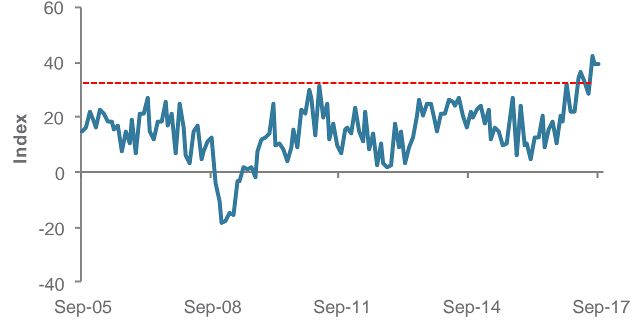
## UK – BoE signals rate hike

**Job market tightens further.** The UK jobless rate fell to a 42-year low of 4.3%, which is 0.2ppt below the BoE's sustainable rate. However, consumption remains subdued as tepid wage growth continues to fall short of inflation. Meanwhile, Brexit talks have made little progress.

**BoE builds case for rate hike.** The BoE cited the reduced slack in the economy to build a case for a possible rate hike. Any hike is likely to be one-off for now, given the overhang of Brexit-related risks and the likely impact on the job market.

Figure 10: US business spending intentions have picked up; clarity on tax reforms could provide a further boost

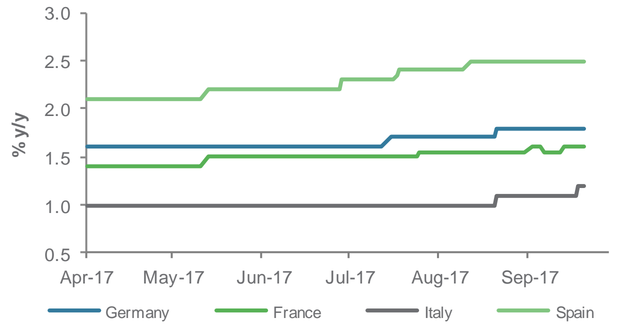
US Philadelphia Fed survey of capital expenditure in six months




Source: Bloomberg, Standard Chartered

Figure 11: Euro area growth expectations continue to be revised higher across the region, most recently in Italy

Euro area consensus GDP growth expectations for 2018




Source: Bloomberg, Standard Chartered

Figure 12: UK's wage growth remains well below retail inflation, hurting consumers' purchasing power

UK average wage growth excluding bonus; retail price inflation

Source: Bloomberg, Standard Chartered

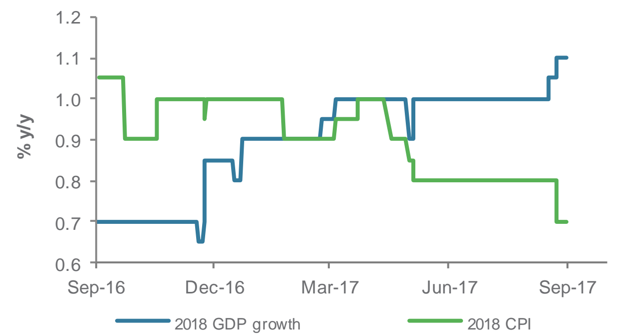
## Japan – growth upgrades continue

**Above-trend growth to support Abe's re-election.** Japan's growth forecasts continue to be upgraded as domestic consumption joined exports to boost growth above its long-term trend. The improved outlook is likely to help Prime Minister Abe win re-election in October. However, it also means Abe is likely to push through with another sales tax hike, which is likely to dampen growth next year.

**BoJ to stay accommodative.** We believe Japan's continued deflationary challenges, despite a pick-up in activity, and uncertainty around the sales tax hike are likely to keep the BoJ accommodative, at least over the next 12 months.

Figure 13: Japan's consensus growth forecasts continue to be revised higher, but inflation expectations have been downgraded

Consensus economic growth and CPI inflation forecasts for 2018




Source: Bloomberg, Standard Chartered

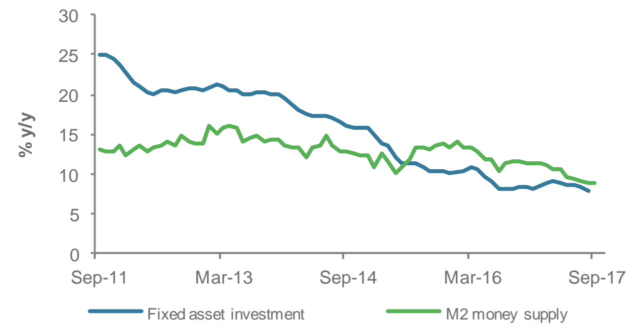
## China – policy-driven slowdown

**Economy slows further.** After a stronger-than-expected H1, China's economy continued to slow into August amid tighter credit supply, property-sector policy tightening and efforts to phase out old industrial capacity. The measures have impacted fixed asset investment, housing sales and industrial production. However, domestic consumption remains robust.

**Tightening to continue.** We expect the above policy moves to remain after the Communist Party Congress in October, given the focus on financial stability and sustainable growth. We expect a smooth leadership transition, with President Xi Jinping and Premier Li Keqiang ensuring policy continuity.

Figure 14: China's fixed asset investment showed signs of further slowdown as authorities tightened the supply of credit

China's fixed asset investment (YTD) and M2 money supply




Source: Bloomberg, Standard Chartered

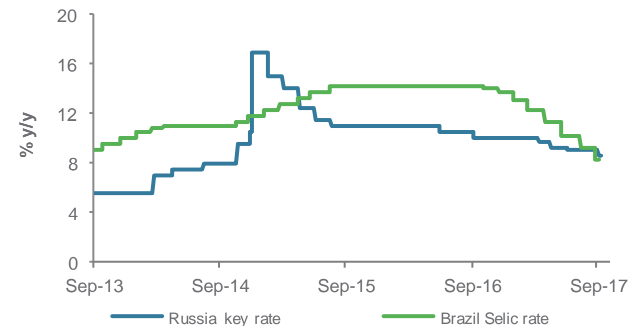
## Emerging Markets – further rate cuts likely

**India likely to boost fiscal spending, cut rates.** India's economy continues to be affected by the rollout of the goods and services tax. Private investment remains subdued, with banks constrained from lending due to non-performing assets. This raises the chances of the government boosting fiscal spending. We also expect another rate cut by the RBI, although the recent rebound in inflation is a constraint.

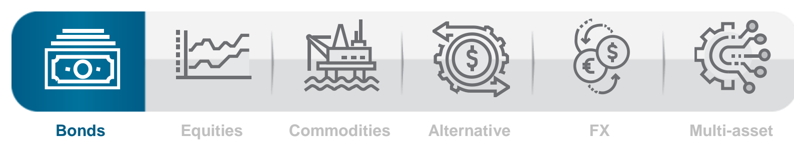
**More rate cuts in Brazil, Russia likely.** Inflation-adjusted rates in Brazil and Russia remain high, despite recent rate cuts. This is likely to encourage further easing of rates, especially as inflation continues to decline. Meanwhile, inflation may have peaked in Mexico, which should allow the central bank to end its rate-tightening policy.

Figure 15: Brazil and Russia are likely to see further rate cuts as inflation-adjusted rates remain high, constraining growth

Brazil's Selic rate and Russia's key rate

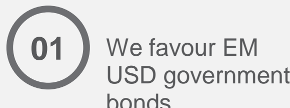



Source: Bloomberg, Standard Chartered

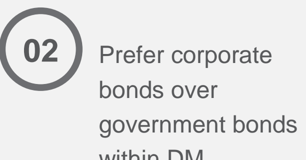



# Bonds

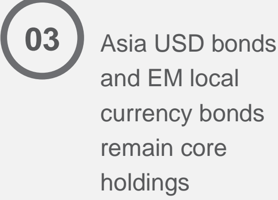
**IMPLICATIONS**
FOR INVESTORS



01 We favour EM USD government bonds



02 Prefer corporate bonds over government bonds within DM



03 Asia USD bonds and EM local currency bonds remain core holdings

## Locking in profits

- Emerging Market (EM) USD government bonds remain our preferred area within bonds. They offer an attractive yield of over 5% and remain supported by strong EM growth and constructive sentiment.
- We tactically lock in profits in EM local currency bonds and reduce them from a preferred to a core holding. While they still offer an attractive yield, our view of short-term USD strength is a headwind for USD-denominated returns.
- Within Developed Markets (DMs), we retain our preference for corporate bonds over government bonds. We view inflation as the key driver of 10-year yields and expect them to remain within 2.25-2.75% over the next 12 months, despite the Fed's projection of four rate hikes by end 2018.

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

| Bond asset class | View | Rates policy | Macro factors | Valuations | FX | Comments |
|---|---|---|---|---|---|---|
| EM USD government | ▲ | ● Not Supportive | ● Supportive | ● Neutral | NA | Attractive yields, inexpensive valuations, positive EM sentiment |
| EM local currency | ◆ | ● Neutral | ● Supportive | ● Neutral | ● Not Supportive | Attractive yields and positive EM outlook. Near-term risk from the USD |
| Asian USD | ◆ | ● Not Supportive | ● Neutral | ● Neutral | NA | Defensive allocation. Influenced by China risk sentiment |
| DM HY corporate | ◆ | ● Not Supportive | ● Neutral | ● Neutral | ● Supportive | Attractive yields on offer, offset by somewhat expensive valuations |
| DM IG corporate | ◆ | ● Not Supportive | ● Supportive | ● Neutral | ● Neutral | Likely to outperform DM IG govt bonds. Yield premium relatively low |
| DM IG government | ▼ | ● Not Supportive | ● Not Supportive | NA | ● Neutral | Returns challenged by normalising the Fed and the 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 | *1.09% | -1.5% |
| EM USD government | 5.22% | 0.4% |
| DM IG corporates | *2.32% | -0.4% |
| DM HY corporates | 5.13% | 0.8% |
| Asia USD | 3.82% | 0.0% |
| EM local currency government | 6.08% | -0.9% |

Source: Bloomberg, JPMorgan, Barclays, Citigroup, Standard Chartered

*As of 31 August 2017

### Developed Market Investment Grade government bonds – Less preferred

Government bond yields had a roller-coaster ride over the past month – declining in early September due to safe-haven demand driven by geopolitical risks and hurricanes in the US. However, the move reversed ahead of the Fed meeting as concerns eased. The Fed maintained its projection of four rate hikes by end 2018 and confirmed plans to start reducing its bond holdings by USD 10bn per month. The bond holding reduction plan was well telegraphed in advance and is likely to have already been factored in.

In Europe, markets are likely to look ahead to the ECB's announcement on when it will start reducing government and corporate bond purchases.

Figure 18: Long-term inflation expectations remain an important driver of US 10-year Treasury yields

US 10y Treasury yield and US 10y inflation breakeven (market expectation of inflation)

Source: Bloomberg, Standard Chartered

We expect US 10-year Treasury yields to rise only moderately and stay within 2.25-2.75% given the low likelihood of any substantial increase in inflation. Short-term (two-year) Treasury yields are likely to rise at a slightly faster pace than longer-term Treasury yields as the Fed hikes rates and long-term inflation expectations remain subdued. Thus we prefer to maintain the maturity profile centred around five years for USD-denominated bonds as it provides a good balance between yield and interest rate sensitivity.

## Emerging Market USD government bonds – Preferred

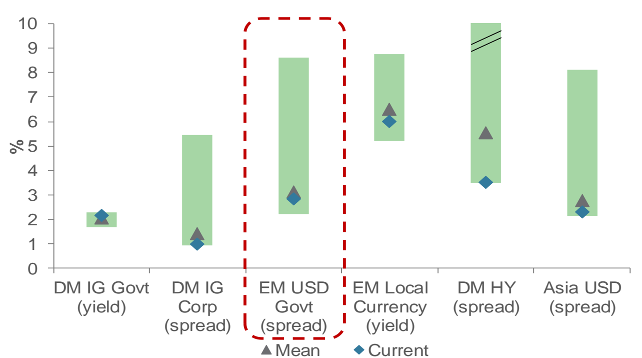
EM USD government bonds is our preferred bond sub-asset class owing to their attractive yield, strong EM growth, robust external balance and positive investor sentiment towards EMs. Our expectation of a moderately weaker USD over the next 12 months is also a supportive factor, at the margin.

EM USD bonds offer an attractive yield of over 5% for a combination of Investment Grade (IG) and High Yield (HY) credit quality and remain one of the few asset classes where valuations are not expensive. A meaningful dispersion in performance suggest fundamentals, not just strong inflows, are driving asset class performance.

While a deterioration in investor sentiment remains a key risk, EM USD government bonds have been relatively resilient than EM local currency bonds, which have seen a sharp decline in inflows. A sharp rise in US Treasury yields and EM specific geopolitical risks are the other key risks to our positive view.

Figure 19: EM USD government bonds remain relatively less expensive than other bond sub-asset classes

Maximum, minimum, average and current valuations (yields and credit spreads) since 2008




Source: Citibank, Barclays, JPMorgan, Bloomberg, Standard Chartered

## Developed Market Investment Grade corporate bonds – Core holding

DM IG corporate bonds remain a core holding as we believe the reasonable yield premium offered by them over government bonds is likely to help them outperform DM government bonds in a rising yield environment.

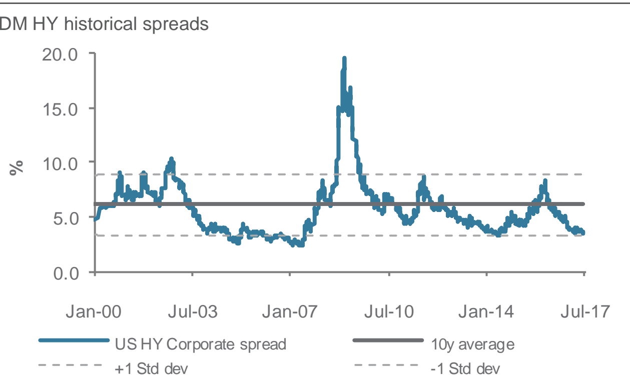
We retain our preference for US IG over European IG corporate bonds. The credit quality for US IG corporates appears to have broadly stabilised. While European corporates are on an improving credit trajectory, a reduction in the ECB's bond purchases could lead to higher government bond yields and credit spreads, which would negatively impact their returns.

## Developed Market High Yield corporate bonds – Core holding

We maintain DM HY corporate bonds as a core holding within a well-diversified allocation. They have performed well over the past one month and consequently offer lower yields than EM USD government bonds, which have much better average credit quality. The current expensive valuations, despite the lower credit quality, are a result of extremely low default rates, which remain below 2%. However, expensive

Figure 20: DM HY spreads close to post-crisis lows but still above pre-crisis extremes

DM HY historical spreads




Source: Bloomberg, Standard Chartered

valuations and lower yield lead us to believe that future returns are unlikely to be as stellar. Thus, we prefer to get a yield of 5% through EM USD government bonds rather than DM HY corporate bonds.

US floating rate senior loans remain an attractive alternative to HY bonds due to their lower volatility and interest rate sensitivity. They are one of the few asset classes that benefit from rising interest rates and provide diversification in case the Fed does hike rates four times by end 2018.

## Asian USD bonds – Core holding

Asia USD bonds remain a core holding and are now our joint second-most favoured bond sub-asset class. We view them as a defensive allocation within the EM bond space as they are anchored by strong regional demand, which has made them less vulnerable to a broad-based EM sell-off. Asian USD bonds have high credit quality, with nearly 80% rated IG.

Recently, S&P downgraded the sovereign ratings of China and Hong Kong, the second such action by an international rating agency this year. The move does not come as a surprise and the credit spreads were largely unchanged.

While the downgrade is a marginal negative, we remain comfortable with bonds from Chinese issuers (which account for nearly half of the universe) as they benefit from still-stable Chinese growth and a stronger currency, which translates to a better debt repayment ability for USD-denominated debt.

Figure 21: China sovereign rating witnessed a second rating downgrade in 2017

Average rating of China across the three major rating agencies

Source: Bloomberg, Standard Chartered

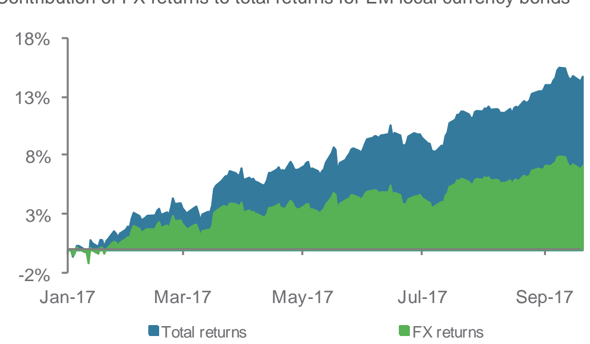
## Emerging Market local currency bonds – Core holding

We reduce EM local currency from one of our preferred bond asset classes to a core holding. While the bonds continue to offer an attractive yield, our outlook for a short-term rebound in the USD creates a headwind for FX returns. Historically, FX returns have been a big driver of returns for EM local currency bonds. Therefore, we choose to tactically lock in profit and close the view on EM local currency bonds.

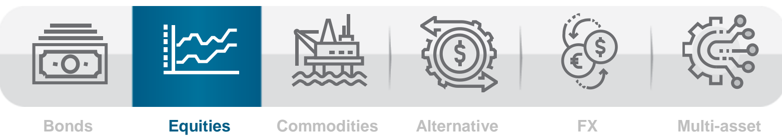
That said, EM local currency is our joint-second most favoured bond asset class alongside Asia corporate bonds and they remain supported by strong EM fundamentals and investor sentiment, at least on a 12-month outlook.

Figure 22: Near-term expectation of a stronger USD creates a headwind for FX returns for EM local currency bonds

Contribution of FX returns to total returns for EM local currency bonds

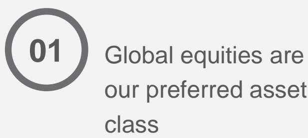



Source: Bloomberg, Standard Chartered



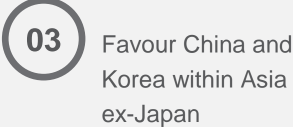

# Equities

**IMPLICATIONS**
FOR INVESTORS



01 Global equities are our preferred asset class

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



03 Favour China and Korea within Asia ex-Japan

## Remain positive

- Global equities remain our preferred asset class. Investors have become more cautious ahead of the Fed's balance sheet reduction and Euro area tapering measures. However, the positive economic and earnings backdrop suggests equities should continue to outperform, despite high valuations.
- The Euro area remains one of our preferred equity markets. We expect the resilient earnings outlook, underpinned by broadening economic growth and rising domestic consumption, to offset the impact of recent EUR strength and a likely ECB tapering. We believe valuations for the Euro area banking sector have room to catch up following earnings upgrades.
- Asia ex-Japan equities are also preferred. Healthy global demand and solid cost controls should lend support to sustainable earnings growth and a continued recovery in return on equity (ROE). China and Korea are our preferred markets.
- Emerging Market (EM) ex-Asia is a core holding. The earnings outlook for the region remains positive, with further upward re-rating underpinned by commodity price resilience and improved demand. USD strength is a potential short-term risk. Japan is also a core holding due to possible upward revisions in the earnings outlook owing to JPY weakness.
- Risks to our equity market 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 | 3.0x | 11% | **2,510** |
| **Euro area (Stoxx 50)** | | | |
| 14x | 1.6x | 13% | **3,564** |
| **Japan (Nikkei 225)** | | | |
| 14x | 1.3x | 10% | **20,363** |
| **UK (FTSE 100)** | | | |
| 14x | 1.8x | 10% | **7,323** |
| **MSCI Asia ex-Japan** | | | |
| 13x | 1.5x | 14% | **656** |
| **MSCI EM ex-Asia** | | | |
| 12x | 1.4x | 15% | **1,449** |

Source: FactSet, MSCI, Standard Chartered
Note: Valuation and earnings data refer to MSCI indices, as of 28 September 2017

Figure 24: Euro area and AxJ continue to be our preferred regions, with UK the least preferred

| Equity | View | Earnings revision | Earnings | Return on equity | Economic data | Benchmark bond yields | Comments |
|---|---|---|---|---|---|---|---|
| Euro area | Preferred | Neutral | Neutral | Supportive | Neutral | Neutral | Resilient earnings, improving fundamentals and attractive valuations |
| Asia ex-Japan | Preferred | Supportive | Supportive | Supportive | Neutral | Supportive | Sustainable earnings growth, ROE recovery, and undemanding valuations |
| EM ex-Asia | Neutral | Supportive | Neutral | Neutral | Neutral | Neutral | Positive earnings outlook on commodity price resilience |
| Japan | Neutral | Supportive | Neutral | Supportive | Neutral | Not Supportive | Earnings upgrade likely due to JPY weakness |
| US | Neutral | Supportive | Supportive | Supportive | Neutral | Neutral | Strong earnings growth but valuations remain elevated |
| UK | Less Preferred | Not Supportive | Neutral | Neutral | Neutral | Neutral | Brexit negotiations remain tough, political risks yet to recede |

Source: Standard Chartered Global Investment Committee

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

## Euro area equities – Preferred

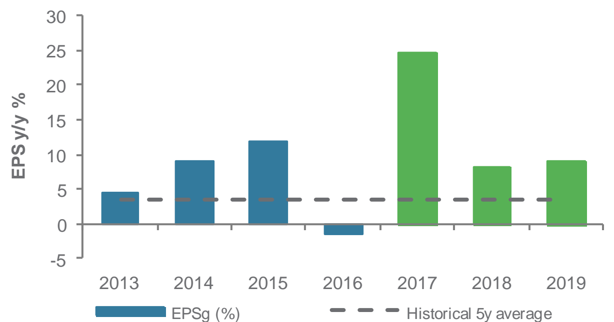
The Euro area remains a preferred equity market. Although the region's performance has been affected by EUR strength this year, we have seen Euro area equities recovering from their recent weakness, as broadening growth across the region drives corporate revenues, margins and earnings. We expect the ongoing improvement in domestic consumption to help offset the negative impact of EUR strength.

Consensus expectation for Euro area corporate earnings growth is close to 13%, with expectation for financial sector earnings growth particularly strong at 45.5%. Expectation for Euro area margins has increased to 5.9% from 5.7% in early August, reinforcing the trend of improving corporate fundamentals.

Concerns that growth indicators may have peaked, especially in Germany, could act as near-term headwinds. Nevertheless, continued improvement in the corporate performance outlook is expected to boost sentiment over the next 6-12 months. In addition, financial sector valuations have yet to catch up after recent earnings upgrades. Chancellor Angela Merkel's German election victory could clear the way for the ECB to announce plans to remove policy accommodation, possibly as soon as in October. These factors could contribute to a re-rating of the financial sector as well as the broader market.

Figure 25: Euro Area earnings have been resilient

2017 has seen strong Euro area EPS growth on rising consumption




Source: FactSet, Standard Chartered

## Asia ex-Japan equities – Preferred

Asia ex-Japan is one of our preferred regions. The 6-12 month outlook remains favourable, given (1) our base case scenario for a more stable USD, (2) fading risks of a more protectionist stance from President Trump's administration, and (3) resilient EPS growth momentum.

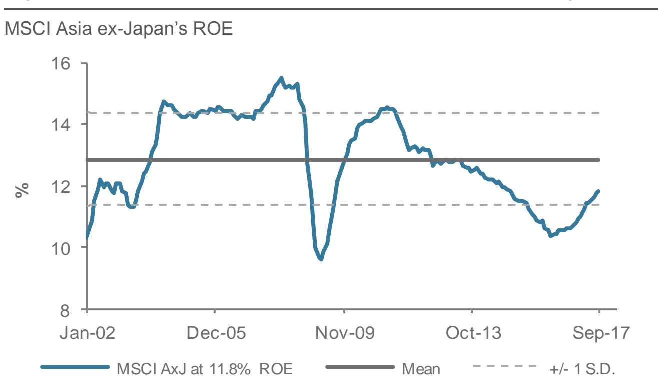
Healthy global demand and solid cost controls could further boost consensus 12-month EPS growth, currently at 14.9%, leading to a more sustainable recovery in ROE. Besides, Asia ex-Japan's valuations are cheap, with its 12-month consensus forward P/E trading at an 18.0% discount to global equities. We see prospect for further multiple expansion as the region could offer faster earnings growth than global equities over this cycle.

China is our most preferred market within Asia ex-Japan. While we are cognisant that investors could take short-term profits ahead of the 19th Party Congress in October, given strong YTD returns, we remain optimistic about China's fundamental outlook. Ongoing reforms (including China's recent move to cut overcapacity) as well as support from Hong Kong's Stock Connect programmes bodes well for Chinese equities.

Korea is also a preferred market. Compelling valuations of Korean equities, trading at a 31.4% discount to the region, could provide sufficient buffer even if political tensions remain high. Within Asia ex-Japan, Thailand has been upgraded to a core holding in anticipation that the economic recovery could turn more broad-based.

Figure 26: Room for MSCI Asia ex-Japan's ROE to trend higher

MSCI Asia ex-Japan's ROE




Source: FactSet, MSCI, Standard Chartered

## EM ex-Asia equities – Core holding

EM ex-Asia equities remain a core holding. Global economic growth is broadening and world trade is doing well, without putting undue pressure on inflation. This is supportive of EM ex-Asia. Improved current account deficit positions in select EM ex-Asia markets mean the region should be more resilient to higher US interest rates. These factors should lead to a more sustainable recovery in capital inflows into the region.

The earnings outlook for the region remains positive, with consensus 12-month forward EPS growth forecast at 15.2%. We expect further upward re-ratings, underpinned by commodity price resilience, solid cost discipline and better demand. As EM growth accelerates relative to Developed Markets (DMs), it provides room for the current P/E valuation discount of 22.2% between EM ex-Asia and DM to narrow.

Beyond likely near-term USD strength and weakness in commodity prices, risks stemming from political uncertainties are here to stay. In particular, the leadership election of South Africa's incumbent African National Congress party in December 2017 could limit upside to South Africa equities. Rate hikes in DMs also tend to weaken the South African rand, which could drag down domestic-focussed equities. We stay cautious on South African equities.

Brazil's political uncertainty persists amid graft charges against President Michel Temer. But we expect further monetary easing by the central bank to help boost demand. Brazil is our most preferred market within EM ex-Asia.

Figure 27: MSCI EM ex-Asia trades at a discount to MSCI World

Source: FactSet, Bloomberg, MSCI, Standard Chartered

## Japan equities – Core holding

We view Japan equities as a core holding, given the positive backdrop for EPS growth. The announcement of a snap general election should allow the Liberal Democratic Party to retain its majority in the Lower House, solidifying Prime Minister Shinzo Abe's power base. This, in turn, could lead to the continuation of current BoJ policies, strengthening our base-case scenario of near-term JPY weakness. We see further EPS upward revisions, given that about 30% of Japan's corporate sales are derived from overseas.

In addition, the ongoing strength in global economic data should spur further EPS upgrades. Japan's EPS is most leveraged to global industrial production (IP) among the major regions (with a beta of 5.8). This could lend support to consensus 12-month forward EPS growth of 16.5%.

Valuations also look increasingly attractive, especially given Japan equities' recent muted performance. The market is trading at a consensus 12-month forward P/E of 14.2x, which is still well below its historical average of 16.9x.

On a negative note, we acknowledge that the pace of share buybacks has slowed in 2017 to around JPY 1.2trn YTD (as of July 2017) versus JPY 3.5trn in the same period last year. But we see room for upside surprises going forward, given the ample cash holdings among Japanese corporates (about 16% of total market capitalisation).

Overall, we retain Japan equities as a core holding, as there are better re-rating catalysts in other regions.

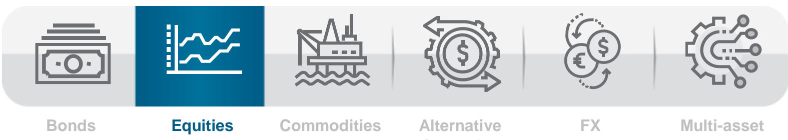
Figure 28: Japan's EPS has the highest beta to global IP

Beta of EPS to global IP among various regions

Beta of EPS to Global IP: 0, 2, 4, 6

Japan | Emerging Markets | World | Continental Europe | US | UK

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. Strong earnings improvement has driven the US equity market performance in Q3. Looking ahead, any progress in US tax reforms could trigger further market re-rating.

Consensus earnings growth expectation is around 11% currently, with net margins expanding to 8.5% from 8.4% in early August. ROE stood at a respectable 16.5%. Companies in the technology sector have seen the biggest upgrades in earnings forecasts in Q3.

Prior USD weakness has helped to boost corporate sales and EPS growth. Although we expect a near-term USD rebound, the Fed's plan to gradually reduce its bond holdings from October and stick with its gradual pace of rate hikes should keep the USD broadly stable in the medium term, resulting in muted impact on the equity market. The Fed's outlook reveals its confidence in the current economic recovery and is broadly in line with our scenario of gradually accelerating growth and subdued inflation, which is positive for corporate earnings growth.

US valuations, at 17.9x on a forward P/E basis, remain elevated against the historical average. This is a key reason why the market is a core, rather than a preferred, holding.

Figure 29: US valuations have been climbing

Rising earnings expectations have been the driver for valuation re-rating

Source: FactSet, Standard Chartered

## UK equities – Less preferred

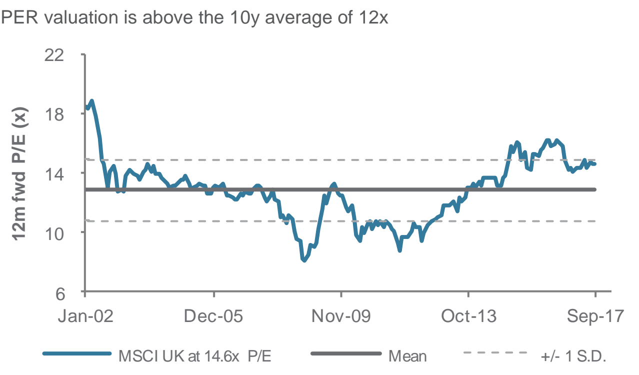
We view UK equities as the least preferred among the six key markets. UK and European negotiators have not made much progress after three rounds of Brexit negotiations and uncertainty around the transitional arrangements remain elevated. However, the recent recovery in commodity prices has been positive for UK equities, which are up slightly in the Q3 period. With 22% of the FTSE's market cap in commodities and 17% in EMs, UK equities have tended to track the performance of oil prices and EMs. However, a recovery in commodity prices and EMs may not be sufficient to drive further re-rating of UK equities unless the underlying fundamentals of the UK's domestic economy improve.

Consensus expectations for corporate earnings in 2017 are for 9% growth. Given the volatility of commodity markets, we remain cautious on the sustainability of earnings growth. In addition, the uncertainty over Brexit negotiations and slow wage growth could weigh on domestic consumption and household spending trends, which could undermine revenue growth for domestic-oriented companies.

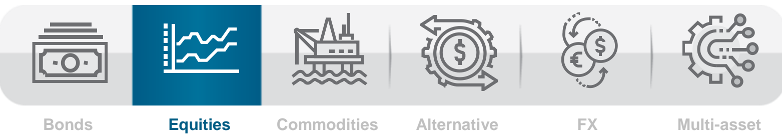
UK market valuations remain high despite the uncertain outlook. The market is trading at a 12 month forward P/E multiple of 14x, which is significantly above the 10-year average P/E of 12x. Although the market boasts of an attractive equity dividend yield of 4.5%, its sustainability remains in doubt, given the uncertain economic outlook.

Figure 30: UK valuation is at the high end of its historical range

PER valuation is above the 10y average of 12x




Source: FactSet, Standard Chartered




# Equity derivatives

## Searching for value in low volatility environment

In our last Global Market Outlook, we discussed potential opportunities for investors to sell put options on European banks and oil companies. Helped by a firm EUR and continued improvement in appetite for risk assets, both ideas did well over the past few weeks.

With DXY finding support in the 91-92 area and US 10year yield rebounding from the lows, a USD recovery from oversold levels may give rise to opportunities for investors in this low volatility environment.

### 1. European autos good candidates to sell put options.

A strong EUR can hurt exporters' share prices and European autos have been suffering for the better part of this year.

While we remain constructive on the EUR over the medium term, short-term pullbacks may lead to tactical opportunities for investors. Expressing the view via derivatives is an interesting idea, because automakers' implied volatility has been rising. For example, six-month option-implied volatility for the European auto sector has risen by 2ppt relative to Euro Stoxx 50 volatility in the past two months.

Figure 31: EUR at a major resistance level around 1.20

Technical levels for EUR/USD

Source: Bloomberg, Standard Chartered
As of 15 Sep 2017

### 2. US financials' downside limited by Fed actions

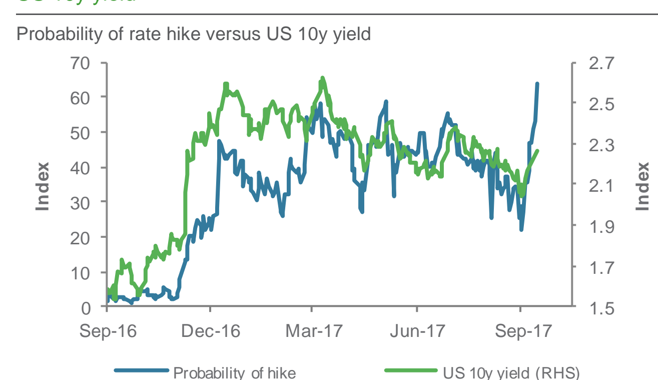
With the Fed's balance sheet reduction and plan for four rate hikes over the next 15 months, the US financial sector is returning to the centre of action for derivatives.

They are sensitive to interest rates and have experienced pullback in prices and a rise in volatility. US financials' six-month option-implied volatility was trading close to its two-year high compared with the S&P500. After the recent rebound in share prices, the sector's implied volatility is still trading at 8ppt higher than the S&P500's – above the average level over the past two years.

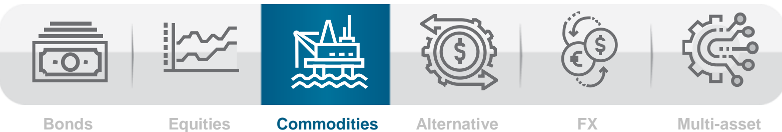
Our Global Investment Committee sees a 75% probability that the US 10-year yield is going to remain above 2.25%. This, together with the Fed policy backdrop, suggests the downside risk to US banks may be limited. Combining with high volatility, clients may consider selling put options on this sector.

Figure 32: Rising probability of rate hike may lead to a rebound in US 10y yield

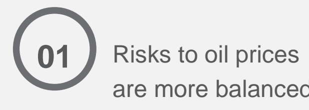
Probability of rate hike versus US 10y yield

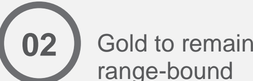


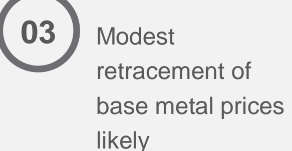

Source: Bloomberg, Standard Chartered
As of 21 Sep 2017



**IMPLICATIONS**
FOR INVESTORS



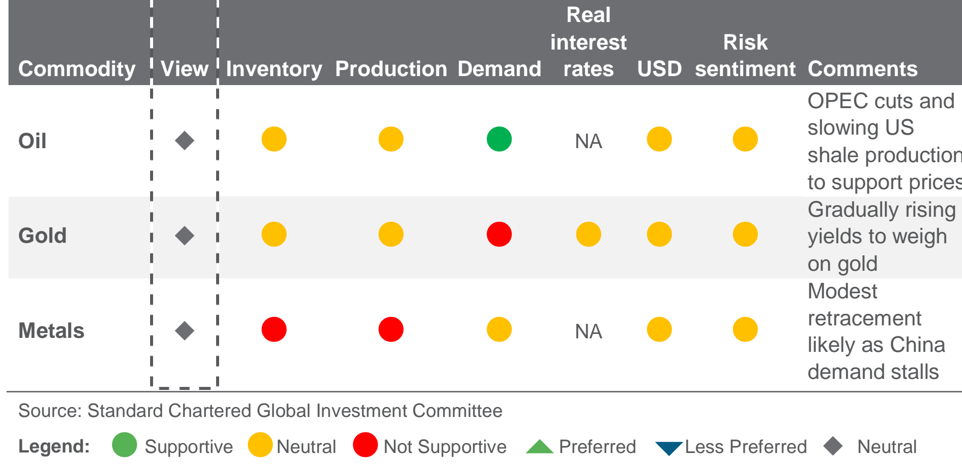




# Shrugging off geo-political risks

- We expect commodities to rise modestly amid continued strength in global growth, though any slowdown in China's growth remains the key risk.
- We believe risks to the oil price outlook are becoming more balanced following the recent rise.
- Gold is expected to return to USD 1,200-1,300/oz, implying some downside from current prices amid gradually rising real yields globally.

Figure 34: Commodities – key driving factors and outlook



| Commodity | View | Inventory | Production | Demand | Real interest rates | USD | Risk sentiment | Comments |
|---|---|---|---|---|---|---|---|---|
| Oil | ◆ | ● Neutral | ● Neutral | ● Supportive | NA | ● Neutral | ● Neutral | OPEC cuts and slowing US shale production to support prices |
| Gold | ◆ | ● Neutral | ● Neutral | ● Not Supportive | ● Neutral | ● Neutral | ● Neutral | Gradually rising yields to weigh on gold |
| Metals | ◆ | ● Not Supportive | ● Not Supportive | ● Neutral | NA | ● Neutral | ● Neutral | Modest retracement likely as China demand stalls |

Source: Standard Chartered Global Investment Committee

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

## China remains key

We remain moderately constructive on commodities as global economic data improves, with growth broadening across both Developed and Emerging economies. China's macroeconomic outlook remains resilient, although the slowdown over the past few months could act as a headwind to industrial metal prices. We remain watchful of the progress of environmental and supply-side reforms after the Party Congress in October, as that would determine industrial metal prices going forward.

Gold prices have surrendered recent gains as investors reacted to a hawkish outlook after the recent FOMC meeting, despite heightened geo-political risks surrounding the Korean peninsula. Additionally, the physical market has remained soft despite the seasonally strong period for consumption (Diwali) nearing. Nevertheless, we believe gold's outlook will be centred on USD strength and real yields as gold's correlation with the USD and 10-year US Treasuries has remained largely intact. In our view, we continue to believe gold prices will turn lower as rising real yields will pose a headwind going forward.

Figure 33: Where markets are today

| Commodity | Current level | 1-month return |
|---|---|---|
| **Gold (USD/oz)** | 1,287 | -1.6% |
| **Crude Oil (USD/bbl)** | 57.4 | 11.6% |
| **Base Metals (index)** | 126 | -1.7% |

Source: Bloomberg, Standard Chartered

## Crude oil – Not chasing the rally for now

Brent crude prices have rallied due to rising geopolitical tensions as Turkey threatened to shut down Kurdish oil exports in response to the region's independence vote. Hurricane Harvey also impacted the US energy market, with the drop in oil product inventory outpacing the build-up of crude inventories, which supported prices.

Looking forward, US crude inventories are likely to build up further due to healthy US production. Furthermore, while the prospect of additional OPEC production cuts remains under discussion, we doubt an agreement will be reached in the short term.

As a result, we believe the recent rally in oil prices has made the risks to the outlook more balanced. Therefore, while we do not see huge downside to oil prices from here, we also believe upside is limited in the near term as well.

## Gold – Some downside likely in the near term

Although gold prices reached this year's high in early September, they have since retraced due to the recent rebound in US Treasury yields (which diminished the relative appeal of a non-yielding commodity such as gold). We retain our view that gold prices will trade within a broad range of USD 1200-1300/oz for the remainder of 2017.

Barring large downside surprises in inflation, we believe central banks will gradually move towards tightening policy, which implies further downside for gold at current prices. A re-escalation of political tensions and a weaker USD are key risks to our view.

## Industrial metals – Stay cautious

As we highlighted last month, we believe that the broader industrial metals complex may retrace modestly as the recent attrition in supplies is likely transitory. Copper prices have since pulled back. We note that key macroeconomic data—such as industrial output, investment, retail sales and trade—all grew less than expected last month. Eventually, we expect demand to fall as China's economy slows with its focus turning to financial stability.

Figure 35: Lower oil product inventories in the wake of Hurricane Harvey helped support oil prices

US total gasoline stocks (000 bbls); 5y averages, highs, lows

Source: Bloomberg, Standard Chartered

Figure 36: Hawkish reading of FOMC meeting weighs on gold prices

Gold price (USD/oz), 10-year TIPS yield (%; inverted scale)

Source: Bloomberg, Standard Chartered

Figure 37: What has changed – Oil

| Factor | Recent moves |
|---|---|
| **Supply** | OPEC continues to cut production; US crude oil inventories picked up slightly |
| **Demand** | Leading economic indicators in the US continue to expand |
| **USD** | Close to one-year low; Rebound a risk |

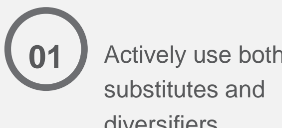
Source: Standard Chartered

Figure 38: What has changed – Gold

| Factor | Recent moves |
|---|---|
| **Interest rate expectations** | US yields have risen as the Fed looks to pare down its balance sheet |
| **Inflation expectations** | Marginal increase in the US |
| **USD** | Close to one-year low; Rebound a risk |

Source: Standard Chartered

# Alternative strategies




**01** Actively use both substitutes and diversifiers

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

**03** Scenarios drive our allocation

## Equity Hedge continues to deliver

- Equity Hedge delivered +2.0% over the month; in contrast, Event Driven, Relative Value and Global Macro have been flat to marginally negative.
- Volatility* has fallen back to lower levels since peaking in mid-August, as markets continue to rise following the recent geopolitical tensions and natural disasters; our diversified alternative strategies allocation is up 4.60% since our *Outlook 2017.*
- We continue to favour Equity Hedge as our preferred strategy, given positively trending equity markets and a reflationary and or 'muddle-through' economic outlook.

### Following a framework for alternative strategies

Using various quantitative analysis and qualitative inputs, we identified potential drivers for alternative strategies, as shared in our mid-year Outlook (Figure 40).

Focusing on our drivers below, we see that positively trending equity markets continue to support Equity Hedge and Event Driven, both of which have delivered good positive performances of +6.4% and +7.4% Outlook to date. Credit spreads continue to trade at narrow levels, potentially improving the cost of funding and performance for leveraged Relative Value strategies. Global Macro strategies continue to face headwinds as markets continue to trade at extremely low volatility levels, despite recent geopolitical events and natural disasters; Global Macro's performance is flat this year.

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 39: Where markets are today

| Alternatives | Since outlook | Since last publication |
|---|---|---|
| Equity Long/Short | 6.4% | 2.0% |
| Relative Value | 2.8% | 0.2% |
| Event Driven | 7.4% | 1.0% |
| Macro CTAs | 0.1% | -0.8% |
| Alternatives Allocation | 4.6% | 0.8% |

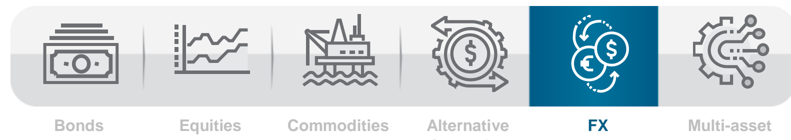
Source: Bloomberg, Standard Chartered

Figure 40: A traffic light framework for alternative strategies

| | | Description | View | Drivers for strategies to perform | |
|---|---|---|---|---|---|
| SUBSTITUTES | Equity Hedge | In essence buying undervalued stocks and selling overvalued stocks | ▲ (Preferred) | • Positively trending equity markets | ● (Supportive) |
| | | | | • Rising equity market dispersion | ● (Neutral) |
| | Event Driven | Taking positions based on an event such as a merger or acquisition | ◆ (Neutral) | • Positively trending equity markets | ● (Supportive) |
| | | | | • Rising mergers and acquisitions | ● (Neutral) |
| | | | | • Narrowing credit spreads | ● (Neutral) |
| | Relative Value | Looking to take advantage of differences in pricing of related financial instruments | ◆ (Neutral) | • Lower interest rate levels | ● (Supportive) |
| | | | | • Cost of funding, narrowing credit spreads | ● (Neutral) |
| DIVERSIFIERS | Global Macro | Looking to exploit themes, trends and asset class relationships (correlations) at a global level, generally with leverage | ▼ (Less Preferred) | • Rising volatility and credit spreads | ● (Not Supportive) |
| | | | | • Increasing cross asset dispersion | ● (Neutral) |
| | | | | • Clear market trends (up/down) | ● (Neutral) |

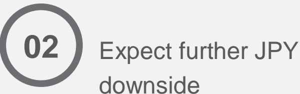
**Legend:** ● Supportive ● Neutral ● Not Supportive ▲ Preferred ▼ Less Preferred ◆ Neutral

Source: Standard Chartered Global Investment Committee; * Volatility is tracked by the VIX index

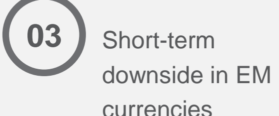


**IMPLICATIONS**
FOR INVESTORS

Position for short-term USD strength




Expect further JPY downside




Short-term downside in EM currencies

# USD to reign short term?

- We believe there is potential for a short-term USD rebound. However, we maintain our moderately bearish bias for the longer term.
- While we believe the EUR is likely to appreciate further over the medium term, positives may have been priced in for the short term.
- We continue to expect further JPY weakness as the BoJ maintains its monetary policy while most other major central banks move towards policy normalisation.
- Emerging Market (EM) currencies to remain broadly stable over the next 12 months as most positive factors remain intact. However, a pick-up in the USD and potentially higher volatility are likely to pose a challenge short term.

Figure 42: 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 | Policy divergence diminishing, but likely priced in weaker USD |
| 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 |
| AUD NZD | Neutral | Not Supportive | Supportive | Neutral | Neutral | Central banks likely to maintain policy for now despite rising interest rates elsewhere |
| EM FX | Neutral | NA | Supportive | Neutral | Neutral | Headwinds mounting short term |

Source: Bloomberg, Standard Chartered Global Investment Committee

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

## USD negative factors largely priced in

- The USD has consistently weakened since the start of the year, falling about 10%. We attribute three reasons for a weaker USD: 1) a number of other major central banks moving towards stimulus withdrawal, 2) a decline in US inflation expectations is resulting in US yield-curve flattening, and 3) disappointment regarding progress on tax reform. We believe many of the above factors have been priced in and there is some possibility of a reversal in the next three months.
- Over the medium term, we believe the continued focus of major global central banks towards tightening monetary policy and robust growth in EM countries are likely to limit any near-term USD gains.

Figure 41: Where markets are today

| FX (against USD) | Current Level | 1-month change |
|---|---|---|
| Asia ex-Japan | 107 | -0.7% |
| AUD | 0.79 | -1.3% |
| EUR | 1.18 | -1.6% |
| GBP | 1.34 | 3.9% |
| JPY | 112 | -2.8% |
| SGD | 1.36 | -0.3% |

Source: Bloomberg, Standard Chartered

## EUR – Short-term pain, long-term gain

The EUR has rallied strongly over the past six months against the backdrop of declining political risks, strong economic momentum and the ECB hinting at the potential withdrawal of policy stimulus. However, EUR strength seems over-extended. The EUR is running ahead of both real and nominal interest rate differentials and speculator positioning is near extreme levels. As a result, a short-term pullback is expected.

Over the medium term (6-12 months), we remain bullish on the EUR as most of the supportive drivers remain in place. We expect a reduction in ECB bond purchases to lead to narrowing interest rate differentials and an increase in demand for Euro area assets. While political risks have certainly reduced, they are likely to remain a factor worth watching, as the recent German elections have shown.

## JPY – Downside risks intact for now

We retain our bearish bias on the JPY. So far this year, a compression in US-Japan real interest rate differentials has supported a stronger JPY. Nevertheless, we expect a US 10-year Treasury yield rebound. Which is likely to weaken the JPY. A key assumption is the BoJ maintains its current yield curve control policy. We believe this is likely, as so far inflation indicators in Japan have continued to weaken.

Longer term, we believe the BoJ could eventually raise its target for 10-year yields, along with other central banks withdrawing policy stimulus. However, this is more likely once yields pick up more significantly elsewhere globally.

## GBP – Sell the rally

In our view, strong GBP/USD gains are unlikely to be sustained and we are unlikely to see the GBP at pre-Brexit levels, at least in the short term.

Recent GBP gains have largely been the result of BoE rate hike expectations. However, there is very little clarity on the future BoE interest rate trajectory beyond what could be a mere reversal of last year's post-Brexit 'emergency rate cut'. Economic momentum is slowing, suggesting downside risks remain considerable.

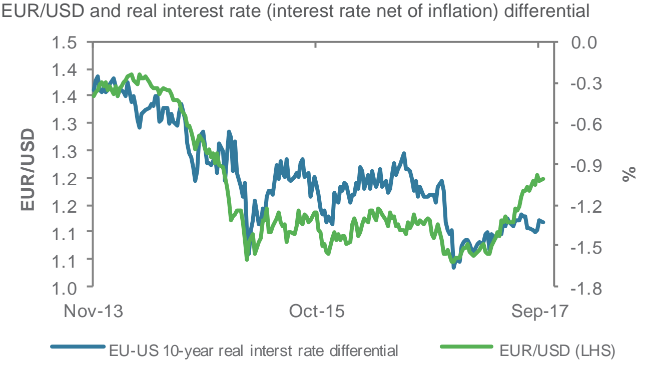
Figure 43: What has changed – G3 currencies

| Factor | Recent moves |
|---|---|
| **Real interest rate differentials** | Moderately moved against the EUR. Moved in favour of the USD at the expense of the JPY and the GBP |
| **Risk sentiment** | Equity and FX volatility has risen from the lows of last 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 is near historical averages |

Source: Bloomberg, Standard Chartered

Figure 44: 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 45: US Treasury yields remain the key driver for USD/JPY

US 10y Treasury yields and USD/JPY

Source: Bloomberg, Standard Chartered

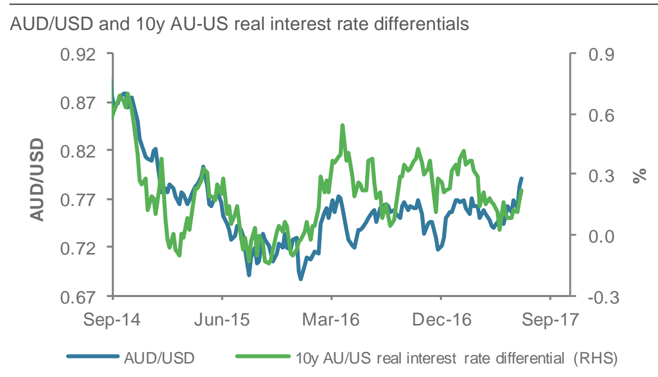
## AUD – Headwinds mounting

The AUD has struggled to strengthen meaningfully beyond 0.80 after breaching its medium-term range. This validates our view past month that fundamentals do not warrant a sustained rally in the AUD. We broadly maintain a range-bound stance on the AUD over the medium term, with a slight downside bias leading into year end.

We believe fundamentals are not supportive for two main reasons. First, we believe the RBA is unlikely to hike rates, despite higher yields elsewhere. This has been communicated by the RBA, which prefers to see further evidence of an economic recovery taking hold in Australia. Second, the rebound in iron ore prices is at odds with the weaker China fixed asset investment data. Therefore, we believe limited upside in iron ore could weigh on the AUD.

Figure 46: Yield differentials unlikely to support the AUD if the RBA maintains status quo

AUD/USD and 10y AU-US real interest rate differentials




Source: Bloomberg, Standard Chartered

## Emerging Market currencies – A notch towards caution

While the overall macro environment is likely to favour EM currencies over the next 12 months, we are seeing a number of reasons to turn more cautious moving into year end.

First, we believe the decline in the USD against major currencies has become overextended. Second, capital inflows into EMs have begun to taper off, suggesting valuations in local assets have now incorporated most of the positives. Third, EM volatility remains exceptionally low and any pick-up in volatility is likely to have negative implications (see adjacent chart). Finally, we believe, local central banks are likely to push back against further appreciation of local currencies should the USD continue to weaken.

Within Asian currencies, we do not expect the PBoC to favour continued CNY appreciation. We believe authorities may have allowed the CNY to catch up with earlier USD weakness amid an improvement in economic data and focus on domestic deleveraging. However, any significant appreciation of the CNY (trade-weighted) could result in excessive tightening of domestic financial conditions, something which authorities would likely want to avoid. We believe there is room for some short-term weakness in the externally oriented, trade-focused SGD and KRW as they are likely to closely follow the USD in the short term.

Figure 47: What has changed in Emerging Market currencies

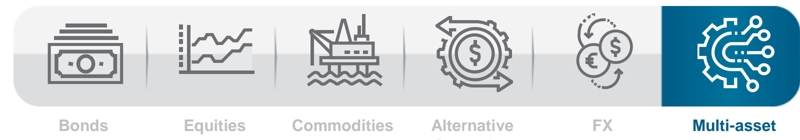
| Factor | Recent moves |
|---|---|
| **USD** | USD is near its last one-year range lows |
| **China risks** | China economic data positive; however, fixed asset investment data has been weak lately |
| **Risk sentiment** | EM FX volatility remain near one-year lows |

Source: Standard Chartered

Figure 48: Emerging Market currencies have been supported by a decline in volatility

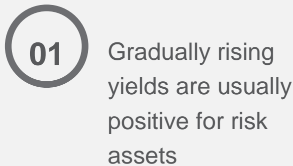
JPMorgan Emerging Market FX volatility (reverse scale) and Emerging Market FX index

Source: Bloomberg, Standard Chartered

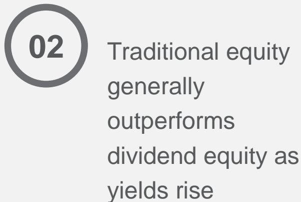



# Multi-asset

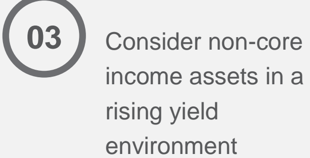
**IMPLICATIONS**
FOR INVESTORS



01 Gradually rising yields are usually positive for risk assets



02 Traditional equity generally outperforms dividend equity as yields rise



03 Consider non-core income assets in a rising yield environment

## The impact of rising yields

- Investors should be mindful, but not afraid, of rising yields. Apart from a sharp increase in yields, a rising rate environment is positive for risk assets.
- A period of gradually rising interest rates is positive for traditional and dividend equity as well as credit asset classes such as High Yield and leveraged loans.
- US senior loans and non-core income asset classes such as convertible bonds have some of the highest hit-rates (percentage of periods with positive returns) during rising yield environments.

In a month dominated by geopolitical news and Fed-watching, equity markets have continued to trend higher, which has translated into positive returns for both our balanced (+0.68%) and multi-asset income allocation (+0.22%). Traditional equity markets have generally done better than their dividend counterparts as well as some of the non-core assets within multi-asset income. This divergence has been most striking in Asia ex-Japan, where dividend equity has significantly underperformed its traditional equity counterpart since our last publication. As a result, the balanced allocation (50% allocation in traditional equity) continues to outperform multi-asset income (42% allocation in dividend equity and non-core income) coming in ahead by 236bps since we published our Annual Outlook at the end of 2016.

Within fixed income, despite the move higher in US government bond yields ahead of the Fed meeting, most asset classes delivered positive absolute performance. The only exception within fixed income was Developed Market (DM) sovereign bonds and INR bonds. We switched out of the latter last month in favour of a more diversified exposure through the broader Emerging Market (EM) local currency (LC) sovereign bond asset class. This switch has worked in our favour with EM local currency sovereign bonds outperforming INR bonds by 172bps since we made the switch.

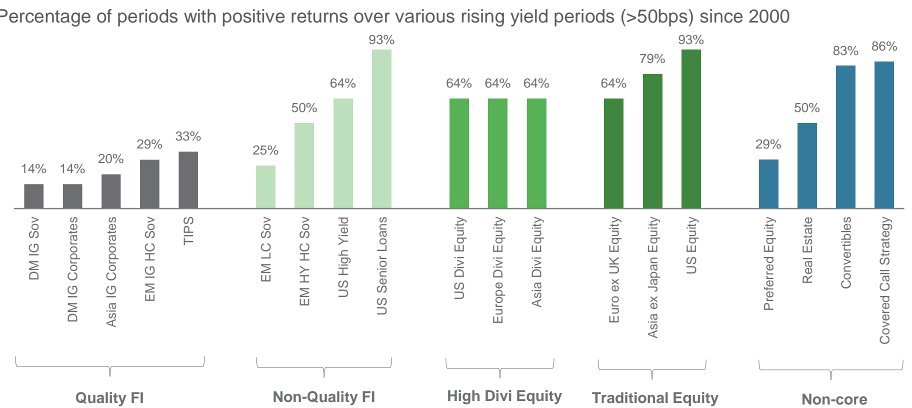
Figure 49: Key multi-asset views

| Allocation Performance | Since Outlook | 1-month return |
|---|---|---|
| **Balanced** | 12.3% | 0.7% |
| **Multi-Asset Income** | 9.9% | 0.2% |

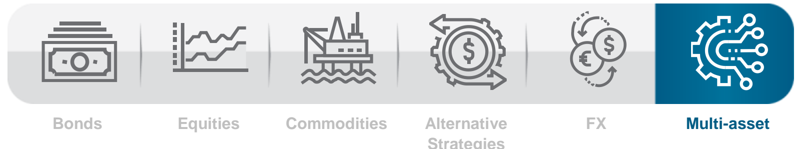
Source: Bloomberg, Standard Chartered

Figure 50: US senior loans and non-core income asset classes have some of the highest hit rates

Percentage of periods with positive returns over various rising yield periods (>50bps) since 2000




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




## Mindful, not afraid, of gradually rising yields

In last month's Global Market Outlook, '*Fundamentals over event risks*', we discussed the importance of a good risk management framework within an investor's allocation. Specifically, we talked about the importance of high quality bonds to buffer against a risk-off period in the market. This month, we discuss another potential area of risk – rising interest rates. While neither of these situations (a protracted risk-off or sharply rising interest rates) are part of our central scenario, we believe this period of relative calm offered by markets is a good opportunity to establish (or validate) the risk management approach within an investor allocation.

With the probability of a December rate hike increasingly priced in by markets, investors might be concerned about the potential impact of rising yields specifically on risk assets and in general broader allocations. We look back at previous periods of rising yields to get some perspective on the outlook for asset classes during such market environments. In order to include only meaningful moves, we limit our analysis to periods where the US 10-year Treasury yield rose by greater than 50bps.

The chart in Figure 50 looks at the percentage of such periods where an asset class delivered positive returns. Some of the results are fairly obvious, i.e., high quality government and corporate bonds, which generally have the highest interest rate risk, display the lowest hit rate. For example, since January 2000, DM Investment Grade sovereign bonds delivered positive returns only 14% of the time when yields increased over 50bps. In contrast, traditional equity displayed the highest hit rate ranging from 64% for Euro ex-UK equity to 93% for US equity. This reinforces the message that a period of gradually rising interest rates is viewed by investors as a sign of strengthening economic environment. This is further confirmed by the hit rate of credit-linked asset classes such as High Yield (HY) and senior loans, which also benefit from an improving macroeconomic picture.

## Rising yields – winners and (relative) losers

Senior loans had one of the highest hit rates among all the asset classes we surveyed. While this asset class might underperform HY during a more benign interest rate environment, its ability to deliver better risk-adjusted returns is evident during periods of increasing yields. Another standout is the convertible bond asset class, which is a hybrid asset class with both equity and bond features. This linkage to equity allows it to benefit from the economic environment associated with rising yields. Finally, while Asia ex-Japan equity has lower hit rates than some of the other regions, the average return it delivered during these periods far exceeds the return delivered by either North America or Euro area equity.

Figure 51: Multi-asset income allocation and balanced allocation (asset class weight in %)

Non-core Income
Contigent Convertibles 3%
Preferred Equity 3%
Real Estate 2%
Convertibles 4%
Covered Call Strategy 5%

Fixed Income
Long Mat (20+ yrs) 2%
Mid Mat (5-7yrs) 3%
TIPS 3%
EM HC Sov IG 4%
DM IG Corp 8%
Asia IG Corp 7%
Leveraged Loans 9%
US HY 10%
EM LC Sov 8%
EM HC Sov HY 4%

Multi-asset Income Allocation

Equity Income
Asia Divi Equity 8%
Europe Divi Equity 12%
US Divi Equity 5%

Balanced Allocation
Asia ex-Japan 10%
DM IG Sov 25%
Euro ex-UK 20%
DM IG Corp 8%
US 20%
Senior Loans 7%
DM HY 10%

Source: Standard Chartered

Figure 52: 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** | **5.5** | 🟢 | 🟡 | 🟡 | 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; short-term rebound in USD could create headwind for FX returns |
| **Investment Grade*** | **2.5** | 🔴 | 🟡 | 🟡 | Portfolio anchor, structural carry; some interesting ideas, but interest rate sensitivity a risk |
| **Corporate - DM IG*** | **2.3** | 🔴 | 🟡 | 🟡 | Yield premiums have narrowed, but prices fair; long-term US corporate bonds look appealing if Fed hiking cycle muted |
| **Corporate - Asia IG** | **3.5** | 🟡 | 🟡 | 🟢 | Cautiously positive. Fairly valued, marginally improving credit quality; key risks include concentration risk from Chinese issuers and risk of lower regional demand |
| **TIPS** | **1.9** | 🔴 | 🟢 | 🟡 | 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*** | **1.3** | 🔴 | 🔴 | 🟡 | 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** | **3.1** | 🔴 | 🟡 | 🟡 | Fair to slightly rich valuations; low yields; some sectors attractive |
| **Europe** | **5.5** | 🟢 | 🟢 | 🟡 | Fair valuations; attractive yields; overhang from political risk, mitigated by improving global growth outlook; improving momentum |
| **Asia ex-Japan** | **4.1** | 🟡 | 🟢 | 🔴 | Good payouts; selectively attractive valuations, but pullback a risk from challenges in China/US growth, earnings, Fed and leverage. |
| **Non-core Income** | **4.8** | 🟡 | 🟡 | 🟡 | **Useful diversifier for income and growth** |
| **Preferred** | **5.5** | 🟢 | 🟡 | 🔴 | Attractive yields and exposure to financials; risk from higher rates may not be completely offset by improvement in banks' underlying credit |
| **Convertibles** | **3.5** | 🟡 | 🟡 | 🟡 | 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** | **5.8** | 🟢 | 🟡 | 🟡 | Useful income enhancer assuming limited equity upside |
| **Cocos** | **4.8** | 🟡 | 🟡 | 🔴 | 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 28 September 2017;*Yield data as of 31 August 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*

## Equity

| | Year to date | 1 month |
|---|---|---|
| Global Equities | 16.7% ↑ | 2.1% ↑ |
| Global High Dividend Yield Equities | 15.0% ↑ | 2.0% ↑ |
| Developed Markets (DM) | 15.5% ↑ | 2.6% ↑ |
| Emerging Markets (EM) | 26.7% ↑ | -0.9% ↓ |
| **BY COUNTRY** | | |
| US | 13.5% ↑ | 2.8% ↑ |
| Western Europe (Local) | 9.1% ↑ | 2.4% ↑ |
| Western Europe (USD) | 21.9% ↑ | 2.4% ↑ |
| Japan (Local) | 10.4% ↑ | 5.5% ↑ |
| Japan (USD) | 14.3% ↑ | 2.3% ↑ |
| Australia | 12.0% ↑ | -1.4% ↓ |
| Asia ex- Japan | 30.0% ↑ | -0.3% ↓ |
| Africa | 11.6% ↑ | -6.9% ↓ |
| Eastern Europe | 10.7% ↑ | 1.9% ↑ |
| Latam | 25.3% ↑ | 0.2% ↑ |
| Middle East | 5.3% ↑ | -1.0% ↓ |
| China | 42.0% ↑ | 1.4% ↑ |
| India | 23.3% ↑ | -4.2% ↓ |
| South Korea | 30.9% ↑ | 0.1% ↑ |
| Taiwan | 21.7% ↑ | -3.6% ↓ |
| **BY SECTOR** | | |
| Consumer Discretionary | 15.5% ↑ | 2.1% ↑ |
| Consumer Staples | 10.9% ↑ | -1.0% ↓ |
| Energy | 2.4% ↑ | 8.6% ↑ |
| Financial | 16.4% ↑ | 2.2% ↑ |
| Healthcare | 17.9% ↑ | 2.5% ↑ |
| Industrial | 18.8% ↑ | 4.2% ↑ |
| IT | 30.2% ↑ | 2.1% ↑ |
| | 19.6% ↑ | 1.5% ↑ |
| | 7.1% ↑ | -0.4% ↓ |
| Materials | 14.0% ↑ | -2.8% ↓ |
| Telecom | 10.3% ↑ | 0.8% ↑ |

## Bonds

| | Year to date | 1 month |
|---|---|---|
| **SOVEREIGN** | | |
| Global IG Sovereign | 6.4% ↑ | -1.5% ↓ |
| US Sovereign | 2.3% ↑ | -0.6% ↓ |
| EU Sovereign | 10.7% ↑ | -1.3% ↓ |
| EM Sovereign Hard Currency | 8.8% ↑ | 0.4% ↑ |
| EM Sovereign Local Currency | 12.5% ↑ | -0.9% ↓ |
| Asia EM Local Currency | 8.7% ↑ | -0.4% ↓ |
| **CREDIT** | | |
| Global IG Corporates | 7.4% ↑ | -0.4% ↓ |
| Global HY Corporates | 9.3% ↑ | 0.8% ↑ |
| US High Yield | 6.9% ↑ | 1.1% ↑ |
| Europe High Yield | 18.0% ↑ | 0.5% ↑ |
| Asia High Yield Corporates | 5.2% ↑ | 0.0% ↑ |

## Commodity

| | Year to date | 1 month |
|---|---|---|
| Diversified Commodity | -2.7% ↓ | 1.5% ↑ |
| Agriculture | -10.0% ↓ | 0.5% ↑ |
| Energy | -12.3% ↓ | 7.4% ↑ |
| Industrial Metal | 16.8% ↑ | -1.7% ↓ |
| Precious Metal | 8.5% ↑ | -2.5% ↓ |
| Crude Oil | -2.3% ↓ | 11.6% ↑ |
| Gold | 11.7% ↑ | -1.6% ↓ |

## FX (against USD)

| | Year to date | 1 month |
|---|---|---|
| Asia ex- Japan | 4.1% ↑ | -0.7% ↓ |
| AUD | 9.0% ↑ | -1.3% ↓ |
| EUR | 12.1% ↑ | -1.6% ↓ |
| GBP | 8.9% ↑ | 3.9% ↑ |
| JPY | 4.1% ↑ | -2.7% ↓ |
| SGD | 6.6% ↑ | -0.3% ↓ |

## Alternatives

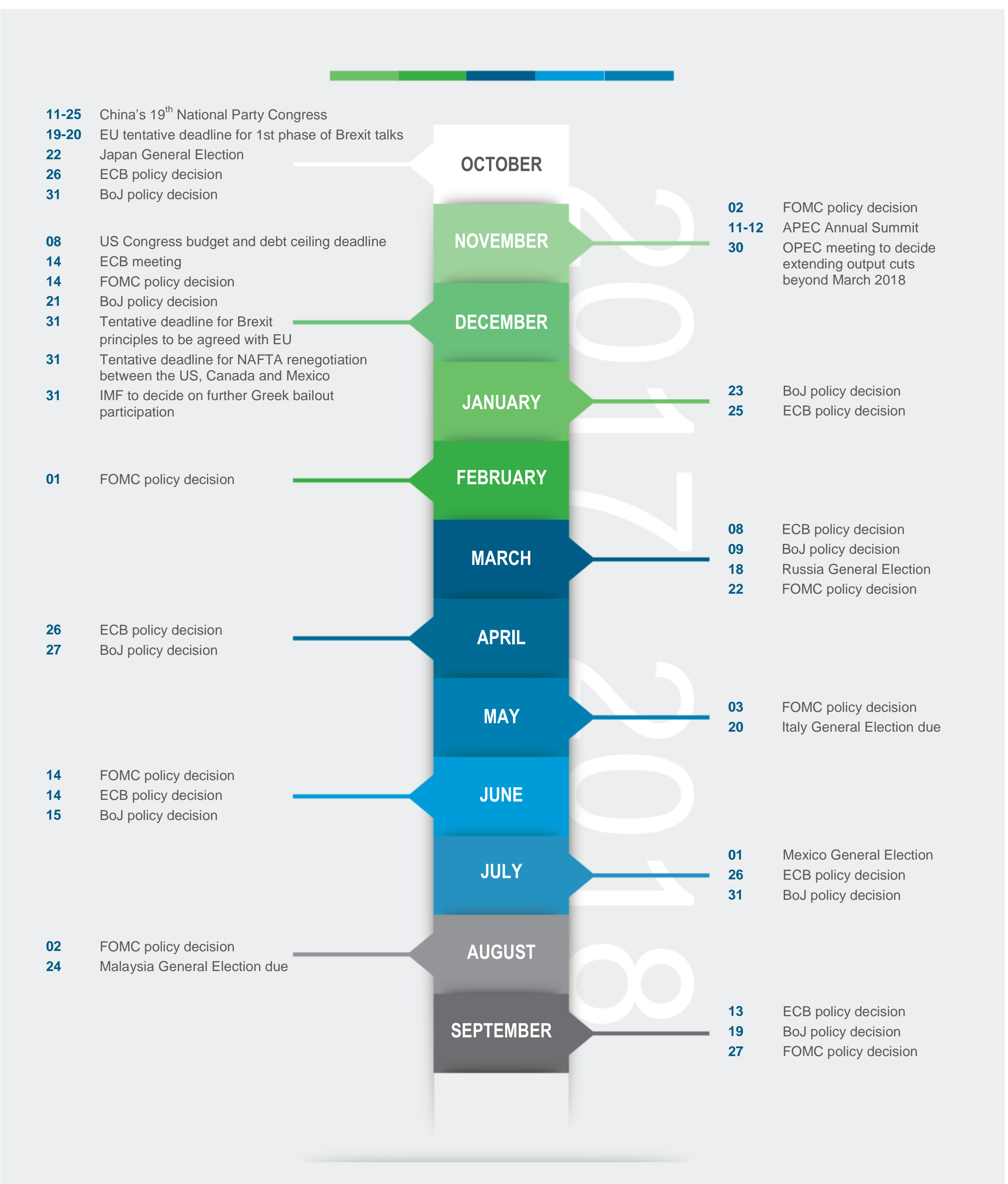
| | Year to date | 1 month |
|---|---|---|
| Composite (All strategies) | 4.2% ↑ | 0.8% ↑ |
| Relative Value | 2.6% ↑ | 0.1% ↑ |
| Event Driven | 6.4% ↑ | 1.0% ↑ |
| Equity Long/Short | 6.7% ↑ | 2.2% ↑ |
| Macro CTAs | -0.1% ↓ | -0.6% ↓ |

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 28 September 2017 and 1-month performance from 28 August 2017 to 28 September 2017

# Events calendar




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

# The team

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

**Alexis Calla***
Global Head, Investment Advisory and Strategy,
Chair of the Global Investment Council

**Steve Brice***
Chief Investment Strategist

**Aditya Monappa*, CFA**
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Head, Equity Investment Strategy

**Audrey Goh, CFA**
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**DJ Cheong**
Investment Strategist

**Jill Yip, CFA**
Investment Strategist

* Core Global Investment Council voting members

# Disclosure appendix

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