| Wealth Management Advisory |

Standard Chartered
Priority

Outlook 2016

A year to A.D.A.P.T. to a changing landscape

The team

01 Alexis Calla*
Global Head, Investment
Advisory and Strategy,
Chair of the Global Investment Council
Alexis.Calla@sc.com

02 Steve Brice*
Chief Investment Strategist
Steve.Brice@sc.com

03 Adi Monappa*, CFA
Head, Asset Allocation and
Portfolio Solutions
Aditya.Monappa@sc.com

04 Clive McDonnell*
Head, Equity Investment Strategy
Clive.McDonnell@sc.com

05 Audrey Goh, CFA
Director, Asset Allocation
and Portfolio Solutions
Audrey.Goh@sc.com

06 Manpreet Gill*
Head, FICC Investment Strategy
Manpreet.Gill@sc.com

07 Rajat Bhattacharya
Investment Strategist
Rajat.Bhattacharya@sc.com

08 Arun Kelshiker, CFA
Executive Director
Asset Allocation and Portfolio
Solutions
Arun.Kelshiker@sc.com

09 Victor Teo, CFA
Investment Strategist
Victor.Teo@sc.com

10 Tariq Ali, CFA
Investment Strategist
Tariq.Ali@sc.com

11 Abhilash Narayan
Investment Strategist
Abhilash.Narayan@sc.com

* Core Global Investment Council voting members

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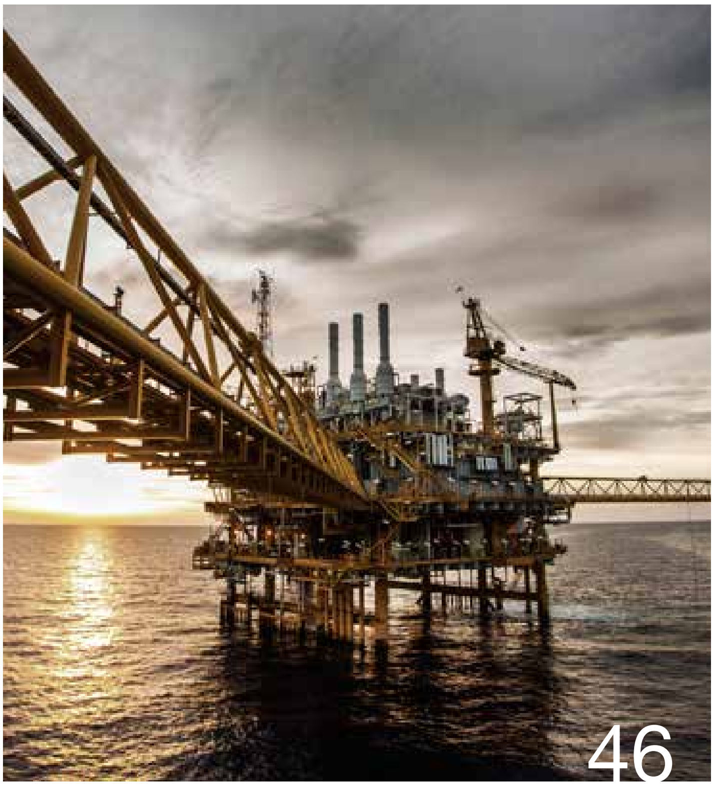

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EDITORIAL

Welcome to our 2016 Outlook

The annual calendar is in some ways an arbitrary construct. Yet, for investors, it is always useful to take time out to think about the past 12 months and identify what we did well and, of course, what we could have done better. The next step is to start planning for the year ahead and try to ready ourselves for the opportunities and challenges that we will undoubtedly face in 2016.

In this spirit, let's take a moment to think about the last 12 months.

| **Alexis Calla** |

Oil prices may bottom, which could have significant implications across the US high yield bond market, Emerging Market equities and commodity-related currencies. And the USD may run out of steam more generally at some point in the year. This is likely to be matched with increased volatility across asset classes.

It was a challenging year

2015 has been a tough year for investors. Yet, our core investment strategies played out as scripted. We forecast lower returns for global equity markets and higher volatility; we continued to favour Developed Market equities over Emerging Market equities; and we highlighted the benefits of a diversified income allocation. We also stressed that policy divergence would likely push the USD higher.

Of course, we also got some key themes wrong – acceleration in global growth, a Fed rate hike in the early half of the year and the benefits of global equities and alternative strategies did not materialise. Meanwhile, our diversified income theme generated meagre returns, albeit against a very challenging backdrop.

Thankfully, some of our other key calls generated a lot of value for investors in 2015. For instance, our preferred equity regions (Europe and Japan on a currency-hedged basis) have performed very well over the course of the year, with the currency hedges being an important source of return. Meanwhile, the USD continued to strengthen, as we expected.

Looking ahead

Looking forward, one thing we can be sure of is that the investment environment is not going to get easier in 2016. One key factor is the stage the US economy is in its cycle. If you believe we are close to the end of the cycle, ie. close to a recession, then a defensive stance would be warranted.

We take a more constructive view. While we acknowledge that this cycle is already one of the longest on record, the US Federal Reserve is still focused on supporting growth rather than fighting inflation. As such, we believe we have at least 18-24 months of the US economic expansion remaining. History suggests this is still a good point of the cycle to be invested in risky assets such as global equities and US high yield bonds. That said, with returns normally negative in the last 6-12 months of the economic cycle, this means we are getting closer to the end of the equity bull market.

For us, one key variable to monitor is US inflation. We expect deflationary pressures to abate over the coming 12 months as the job market tightens and as oil prices eventually bottom. However,

we do not see inflation spiking up anytime soon due to continued excess capacity elsewhere in the world. If we are wrong, and inflation picks up briskly, this would be a significant headwind for riskier assets as it would increase the pressure on the Fed to tighten monetary policy aggressively.

Time to A.D.A.P.T.

It is against this backdrop that we have labelled 2016 as a year to A.D.A.P.T. to a changing landscape.

Many of the trends that we have seen in recent years may be coming closer to the end. As mentioned above, we appear to be getting closer to the end of the global equity bull market. Oil prices may bottom, which could have significant implications across the US high yield bond market, Emerging Market equities and commodity-related currencies. And the USD may run out of steam more generally at some point in the year, potentially when monetary policies become more synchronised. This is likely to be matched with increased asset market volatility.

As such, we believe a high level of diversification and a more tactical approach to investing may be required to help improve returns while also trying to avoid some of the likely pullbacks in riskier assets (such as equity markets).

Key investment views as we enter 2016

Asset class/theme	Preferred areas/strategies
Global equities	Euro area (FX-hedged) Japan
Income investing	Diversified approach important in rising volatility environment
Alternative strategies	Equity long-short Global macro Event-driven

Please see asset class sections for a more detailed list of our 50 high conviction calls for 2016.

2016: A year to A.D.A.P.T to a changing landscape

| **Steve Brice** |

2015 marked the sixth year of global growth since the 2008-09 crisis. This makes it one of the longest business cycles on record. As the cycle matures, generating investment returns is likely to get even more challenging. Assessing where the US economy is in its cycle is key. A US recession in 2016, or early 2017, would warrant more caution. We are more upbeat, expecting US economic expansion to continue well into 2017. Nevertheless, we believe investors will need to be even more vigilant than in 2015 and A.D.A.P.T. to a changing landscape.

In this environment, we believe global equities can deliver positive returns and outperform other asset classes in 2016. That said, we would consider gradually increasing allocation to bonds and alternative strategies as we head into the late stage of an economic cycle.

A **Advanced economies at different stages of the economic cycle. US expansion mature, but consumer spending to drive growth in 2016. Europe and Japan in mid-cycle.**

- Global equity bull market likely to extend as we remain some distance from the end of the US expansion
- Euro area (FX-hedged) and Japan still our preferred markets as they are likely only in the mid-part of their economic recovery

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

- Gold likely to stabilise in Q1 as gradually tightening labour markets in the US and Germany put modest upward pressure on inflation
- US high yield bonds expected to perform well as default risk is contained as oil prices eventually bottom in 2016

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

- China our preferred market in Asia as consumption gradually takes over from investment as the key driver of growth
- Non-Asia Emerging Markets may bottom in 2016 following gradually shifting growth dynamics in China and eventually bottoming oil prices

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

- US dollar bonds likely to deliver modest, but positive returns in 2016 as any tightening remains modest
- Income investing remains valid as absolute levels of yields remain low
- USD strength to become less broad-based

T **Transition to late cycle likely to lead to higher volatility.**

- Investors need to take into account drawdown risks as volatility normally picks up moving into the late stage of the US economic cycle
- Increase allocation to bonds and alternative strategies as we approach the end of the cycle to benefit from different sources of return and lower volatility

Macro overview
Growing out of a deflationary scare

| Rajat Bhattacharya |

Sustained growth to allay deflation fears

Consumption to drive global growth

- Global economic recovery is likely to continue for the seventh year since the 2008-09 recession
- We expect trend growth (3.0-3.5%), driven by rising domestic consumption in the US, Europe and Asia
- Emerging Markets, especially outside of Asia, are likely to recover from a sharp downturn aided by a gradual recovery in commodities, although subdued global trade remains a headwind

Deflation pressures to ease

- Tighter job markets in the US, UK, Germany and Japan and an eventual recovery in oil prices are likely to allay deflation concerns
- However, excess productive capacities in China and Europe are likely to prevent a surge in inflation

Policies to remain accommodative

- Fiscal policies are likely to be less of a drag in the US and Europe and more supportive in China and Japan
- The US Fed is likely to raise rates this December for the first time since 2006, but future rises are expected to be gradual
- The European Central Bank and People's Bank of China are likely to ease monetary policy further
- Bank of Japan to sustain aggressive asset purchases

Emerging Markets, policy mistakes remain key risks

- A sharp slowdown in China and a faster-than-expected tightening of US monetary policy rank among the top risks to our constructive outlook
- Monetary policy errors leading to a deterioration in the growth outlook, geopolitical uncertainty and a sustained surge in the USD or oil prices remain other key risks

A growth engine named 'consumer'

The global economy appears set to deliver in 2016 its seventh year of expansion since the financial crisis. That would make it one of the longest expansions on record. While this raises questions about the longevity of the current cycle, we believe we are 18-24 months away from a US recession. As in recent years, consumers – especially in the US and Europe – are likely to extend this cycle. The drivers are pent-up demand since the crisis and sustained recovery in job markets, especially in the US, which is starting to lift wages. This is providing consumers enough confidence to take on new debt to purchase big-ticket items such as houses, cars and consumer durables. Rock-bottom interest rates set by highly accommodative central banks and low energy prices (that are helping households save money at the gas station) are aiding consumption.

Meanwhile, China's consumers are starting to contribute to growth. Beijing's concerted efforts these recent years to rebalance the world's second-largest economy from investment have resulted in its consumers accounting for more than half the economy.

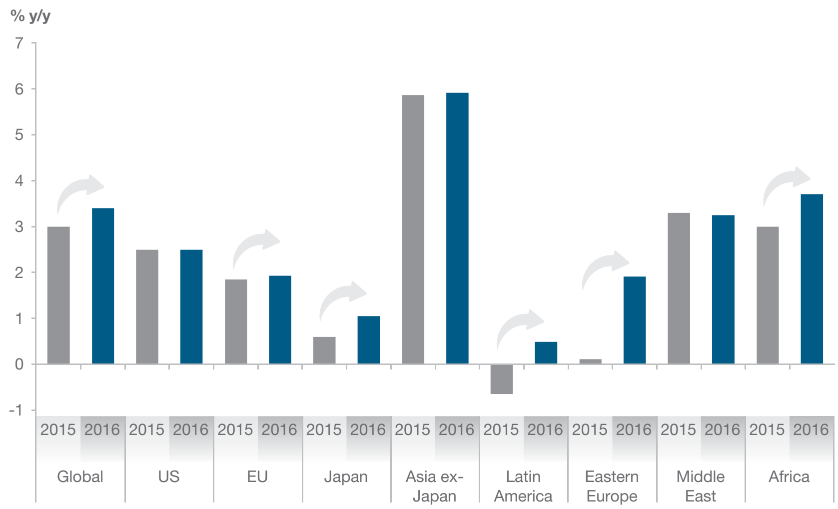
Governments in the US, Europe, Japan and China are also playing their part in sustaining the recovery – those in the US and Europe are relaxing their budgets after years of tightening, while China and Japan are increasing spending.

Growth overcoming deflation

As global growth settles around 3.0-3.5%, it is helping gradually erode the excess productive capacities built up since the crisis. Tighter job markets in the US, UK, Germany and Japan are adding wage pressures. An eventual recovery in oil prices from a low base this year is also likely to lift inflation in most markets. As a result, we expect deflation concerns to fade. This is already apparent in the revival of core inflation across Developed Markets this year.

Figure 1: Global growth is likely to accelerate in 2016

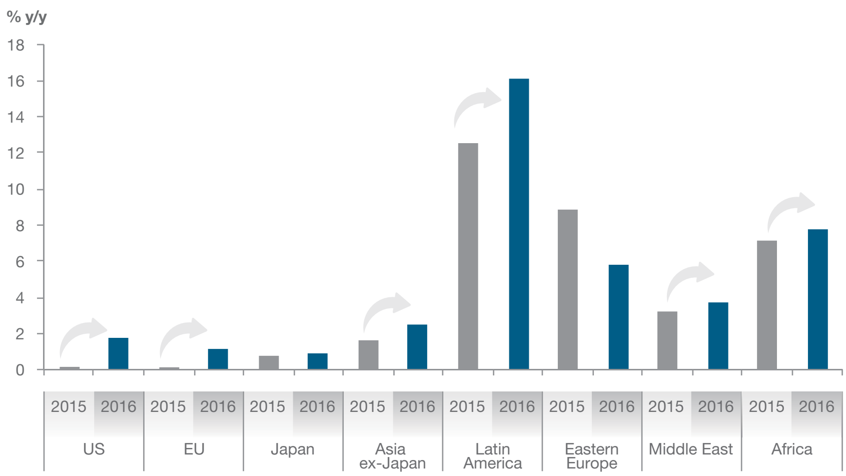
Consensus GDP growth forecasts for 2015 and 2016



Source: Bloomberg, Standard Chartered

Figure 2: Deflation pressures are likely to abate in the US, Europe and Japan

Consensus estimates for inflation in 2016 vs 2015



Source: Bloomberg, Standard Chartered

However, a surge in inflation is unlikely anytime soon. China and Europe have significant spare capacity in the manufacturing sector which has driven down producer prices in recent years. The high unemployment rate in the Euro area is likely to limit wage growth in the region – add to that the drag from weak raw material costs and still-subdued oil prices (despite an expected recovery). As a result, inflation is likely to stay below the central bank's 2% target in 2016.

Low inflation = Easy monetary policies

The Fed looks set to start raising rates for the first time since 2006. However, Fed policymakers have reiterated a gradual path of rate rises in the future. This is justified by an only modest increase in inflation. We expect the Fed to raise rates at a 25-bps clip, 3-4 times from now to end-2016, including one in December. That is likely to leave the benchmark rate below consumer inflation by the end of 2016, keeping policy supportive of growth.

The European Central Bank (ECB) and the People's Bank of China (PBoC) are likely to ease policy further as they aim to support growth and revive inflation. We also expect the Bank of Japan (BoJ) to maintain its highly accommodative monetary policy to revive growth, although rising core inflation (excluding food and energy prices) should encourage it to hold back from adding stimulus for now.

Currencies are likely to play a critical role in determining monetary policies in 2016. Weaker currencies are helping the ECB and BoJ revive growth and inflation, precluding the need for even stronger stimulus. However, any excessive depreciation in the euro and the yen against the US dollar – or indeed a sharp reversal due to any positive growth surprise - would necessitate an adjustment in monetary policies. Thus, central banks are likely to be extremely 'data-dependent', as has already been signalled by the Fed.

Emerging Markets remain a key risk

China's slowdown has hurt Emerging Market growth and commodity prices this year, dragging notably Brazil and Russia into recessions. A sharp slowdown in China remains a key risk as it rebalances its economy. Our base case is for China to grow c. 6.5% in 2016, which combined with an eventual recovery in oil prices, should support most Emerging Markets. An upside surprise could come from growth stabilisation in China which could jump-start the recovery phase for Emerging Markets after 2-3 years of slowdown - just as the US and European expansions mature.

Policy errors, including faster-than-expected Fed rate hikes or inadequate stimulus in Europe, Japan or China, are other possible risks as they could reignite deflation concerns.

We would also watch out for geopolitical risks including the rise of far-left groups in Spain or Portugal elections, the political impact of the influx of migrants into Europe or the ongoing Middle East unrest and its impact on oil prices.

US to sustain expansion

- US economy to see seventh year of expansion on the back of consumption and low borrowing costs
- We expect c. 2.5% growth, close to consensus and the recent trend, with likely upside from housing and wages as unemployment drops to a seven-year low
- An eventual recovery in oil prices from a low base and higher wages are likely to ease deflation concerns
- The Fed is set to hike rates for the first time since 2006 as inflationary pressures start to build, but a strong US dollar means further rate rises are likely to be gradual

US – A seventh year of expansion

US economic growth is likely to continue outperforming its peers in Europe and Japan. We expect around 2.5% growth in 2016, similar to recent years, which would take the expansion to the seventh year since the 2008-09 recession. The main driver of the expansion remains sustained gains in the job market and low borrowing costs. These factors have helped fuel consumption, which accounts for 70% of the economy.

Robust job market fuelling demand

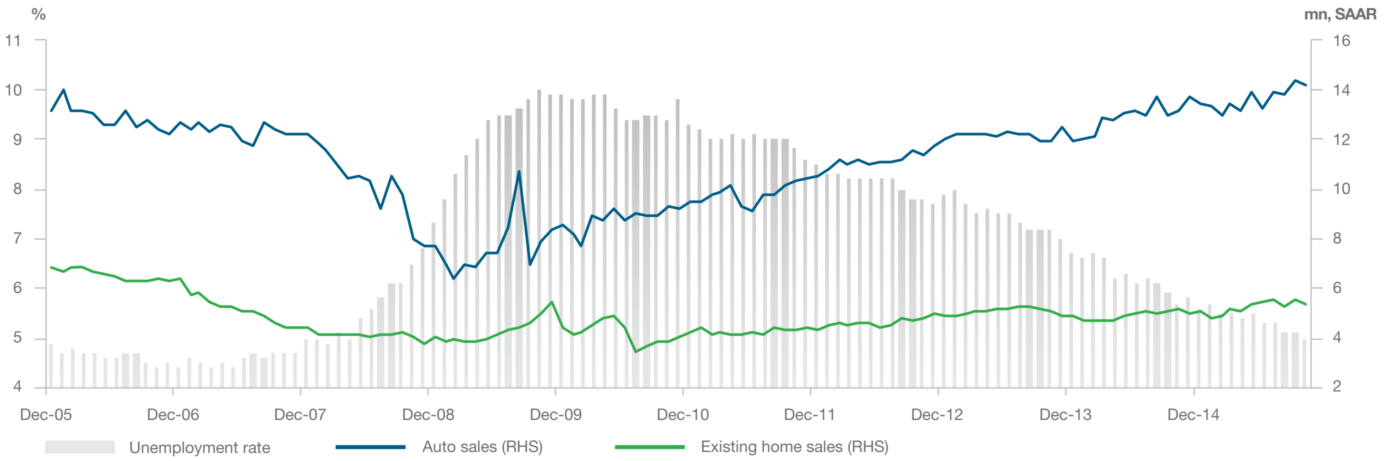
The strength of the US job market has arguably been the brightest spot in the global economy over the past year. After an early-year hiccup caused by another bad winter and a strong US dollar, the pace of job gains has settled around 200,000 jobs per month, led by the services sector. This has helped cut the jobless rate to a seven-year low of 5%.

The strong job market, which is starting to lift wages, has several positive implications for the economy. Greater job security has driven US consumer confidence to its strongest level since 2007, encouraging households to once again take on more debt to buy houses, cars and other big-ticket items. We believe this has created a virtuous cycle of demand which should last well into 2016, if not longer.

There appears to be pent-up demand for cars, houses and consumer durables from the depths of the crisis. For instance, although US auto sales have risen to their highest levels since 2005, estimates show some 20 million cars that were bought in 1999-2005 (before the financial crisis) still need to be replaced.

Figure 3: US demand for cars and housing has risen with the improvement in the job market

US jobless rate (%); Auto, existing home sales (mn SAAR)



Source: Bloomberg, Standard Chartered

Housing could be next the big driver of growth. With mortgage rates at rock-bottom and household balance sheets sufficiently repaired after years of paying down debt, consumers are starting to take the plunge in what is usually their biggest investment decision – buying homes. Sales of previously occupied homes have risen to their highest since 2007. We expect a continuation of this trend into 2016.

Deflation worries ease

2015 began with a deflation scare as consumer prices turned negative for the first time since the 1950s (outside of the 2008-09 recession). We expect prices to start rising in 2016 as sustained growth erodes spare capacity, wages start to pick up and oil prices stabilise and recover gradually.

However, we do not expect a sharp surge in inflation. The strong USD is helping lower import prices and dampening domestic manufacturing – US capacity utilisation remains around 77%, after peaking in late 2014, indicating ample spare capacity. This is likely to limit price gains.

A 'slow and steady' Fed

The Fed looks set to start raising rates in December for the first time since 2006. This would be justified by the sharp drop in the unemployment rate (which has now hit the Fed's target), the economy settling into a steady (albeit below-trend) pace of growth and signs of a pick-up in wages.

However, Fed policymakers have reiterated that future rate increases will be data-dependent. We expect a gradual pace of rate hikes, at most 3-4 increases over the next year at a 25-bps clip, including an expected increase in December. That will likely leave the US benchmark rate below inflation i.e. monetary policy should stay accommodative in 2016, helping keep long-term bond yields (and the mortgage rates tied to it) low enough to sustain the recovery. Meanwhile, US fiscal policy is likely to be less of a drag in the coming year, after detracting from growth over the last five years. Thus, monetary and fiscal policies are set to work in tandem to drive growth for the first time in the past five years.

Europe and Japan to pursue fight against disinflation

- Euro area growth to accelerate marginally for the third year in 2016, and Japan for the second year, on sustained monetary stimuli and relaxed fiscal policies
- Domestic demand is the primary driver of growth in the Europe, including the UK, while weak currencies are helping both the Euro area and Japan
- We expect business investment to pick-up pace both in the Euro area and Japan, with Japan's economy likely getting an added boost from gradual wage increases
- The ECB and BoJ are likely to keep monetary policies highly accommodative well into 2016, if not longer, to sustain the nascent pick-up in inflation

Sustaining the recovery

Europe and Japan are likely to once again contribute to an acceleration in the global economy in 2016. The Euro area is likely to deliver its third year of expansion since the banking crisis of 2012-13 (growing close to 2%) and Japan its second year of expansion since the recession (growing around 1%) triggered by a sales tax hike in 2014. Aggressive monetary policies, which have cut borrowing costs to record lows and currencies to multi-year lows, are aiding the recoveries both in the Euro area and Japan.

Europe

Domestic consumption has emerged as the main driver of growth across Europe, with the Euro area getting an added boost from exports on the back of the euro's decline to 13-year lows against the US dollar.

Germany and the UK, Europe's two largest economies, remain the primary growth engines in the region, aided by robust job markets which have driven the German unemployment rate to a record low and the UK unemployment rate to the lowest since the 2008 crisis. As in the US, tighter job markets are starting to lift wages in the two economies and drive consumption.

We expect growth to broaden across the Euro area, especially in Southern Europe, after the resolution of the Greek crisis and signs of Europe's increasing rapprochement with Russia (to fight terrorist groups in Iraq and Syria). This is backed by improving indicators for business and investor confidence across the region. The Greek impasse and sanctions against Russia had both affected business sentiment in Germany and other parts of Europe earlier in 2015.

Japan

Japan's economy is grinding back to growth after the recession following the sales tax hike in 2014. After a strong recovery in Q1, growth slumped mid-year as weakness in China and other Emerging Markets affected exports and hurt business investment. Meanwhile, consumption remains subdued due to restrained wage growth, despite a tightening job market.

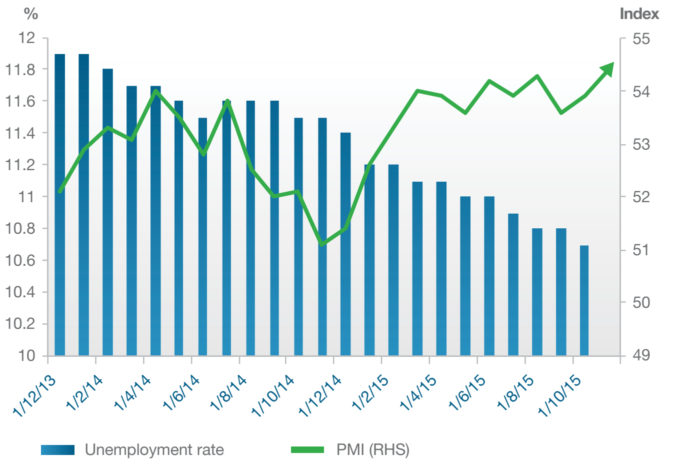
We expect growth to recover gradually in the coming quarters and business investment to pick-up pace. Abenomics, Prime Minister Abe's plan to reform the economy, has helped stimulate the economy through aggressive monetary and fiscal policy easing. The plan's success now significantly depends on whether companies pass on some of the profits from the aggressive policy easing by increasing wages for workers. The next round of wage negotiations in March-April will be closely watched.

Central banks remain key drivers

Continued accommodative monetary policies by the ECB and BoJ are likely to remain the key drivers of growth in the Euro area and Japan. The ECB has cut its benchmark rate further into negative territory and extended its asset purchase programme by another six months, into 2017. We expect it to increase bond purchases as it seeks to nudge inflation towards its 2% target, which looks unattainable at least until March 2017. In the UK, we expect the Bank of England to start raising rates by the middle of 2016 as wages accelerate. In Japan, the BoJ is likely to continue with its stimulus, although a gradual increase in core inflation (excluding food and energy) could restrain a further increase in the programme. As monetary policies become stretched, we expect fiscal policies to be relaxed and play a bigger role in boosting growth in Europe and Japan.

Figure 4: Euro area business confidence has continued to improve with the job market

Euro area jobless rate (%); Purchasing Managers Index



Source: Bloomberg, Standard Chartered

Emerging Markets may bottom as China stabilises

- China's growth is likely to stabilise at around 6.5% as it refocuses its economy on consumption. A soft-landing may help Emerging Markets find a bottom
- Asian growth should outperform other Emerging Markets thanks to better fundamentals, although weak global trade is likely to remain a drag
- Latin America is expected to recover gradually after a contraction in 2015, helped by an eventual recovery in oil, although impeachment proceedings against Brazil's President Rousseff is a key uncertainty in 2016
- Russia's economy is likely to stop contracting in 2016 as oil prices eventually recover. A key focus will be whether the US and Europe ease their sanctions on Russia as they coordinate to fight terrorism in Iraq and Syria

Emerging Markets may find a bottom

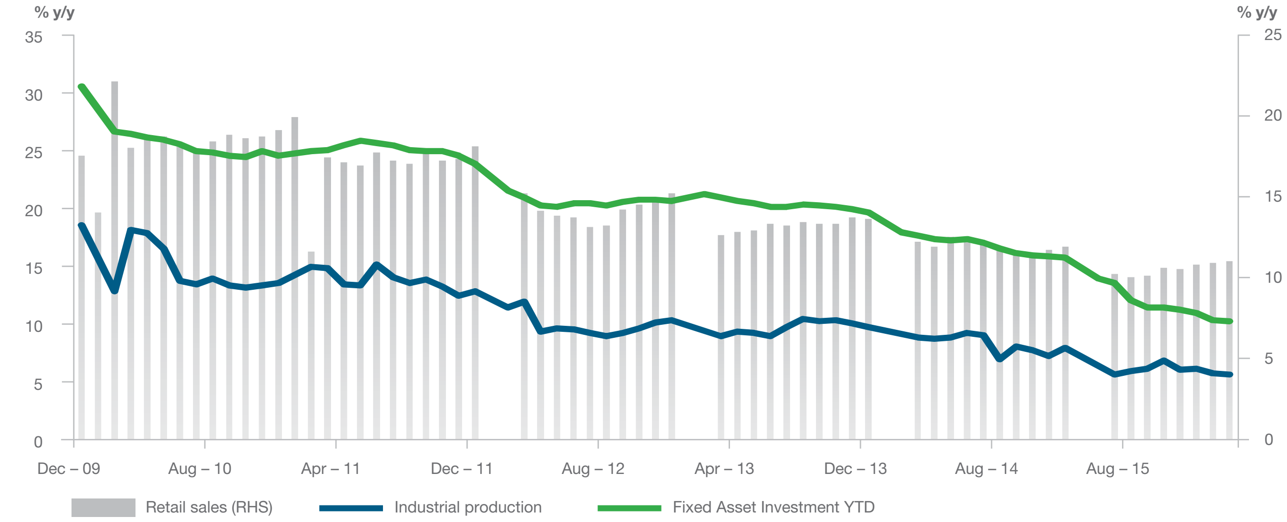
Emerging Market growth has slumped in recent years as China's slowdown hurt exports and commodity prices. We expect Emerging Markets to find a bottom in 2016 as China stabilises and oil prices gradually recover from a sharp decline benefitting major producers such as Russia, Brazil and Mexico. Asian growth is likely to outperform that in Latin America and Eastern Europe in 2016 on the back of still-robust domestic demand. Also, many Asian policymakers have room to ease monetary and fiscal policies further. In contrast, Brazil and Argentina, two of Latin America's three largest economies, face high inflation, forcing their authorities to maintain tight policies.

China: consumers to the fore

China's policymakers have set a 6.5% growth target for 2016, indicating further slowdown from around 7% this year. Beijing's thrust remains on rebalancing the economy away from excessively

Figure 5: China's consumption has remained resilient despite a slowdown in investment and manufacturing

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



Source: Bloomberg, Standard Chartered

relying on investment towards domestic consumption. At the same time, policymakers are likely to ensure the economy does not undergo a sharp slowdown and job creation continues at a steady pace to ensure social stability (which remains the ultimate objective).

This suggests a continuation of the policies pursued in 2015: targeted lending to chosen infrastructure sectors (eg. railroads, rural housing); further easing by the People's Bank of China; and increased fiscal spending. Authorities have sufficient scope to ease policies further in the event of a sharp downturn. We expect more structural reforms aimed at state-owned companies and easing business rules for the services sector, which is now a key driver of growth. The share of consumption in the economy (which has crossed 50%) is likely to rise further, while 'old-economy' manufacturing sectors and housing work off excess capacities. The recent recovery in house prices, aided by government incentives, is an encouraging trend.

Asian growth to outperform other EMs

Asia, excluding Japan, is likely to remain the world's fastest growing region, although Eastern Europe and Latin America are likely to play catch-up as they recover from a sharp downturn. In North Asia, we expect South Korea and Taiwan to benefit from steady growth in the US and Europe and still-low energy prices. However, their exporters continue to be buffeted by the slowdown in global trade even as they compete with Japan's exporters who are benefitting from a weak currency.

Resource-driven economies in Southeast Asia, such as Indonesia and Malaysia, are likely to benefit from a gradual recovery in energy prices and a likely stabilisation in China's growth. Moreover, central banks in Indonesia and Malaysia have scope to ease policy further once they have more clarity on the future path of Fed policy. This could provide upside surprises to growth.

India stands out among other Asian economies, as its growth slowdown seems to have bottomed. We expect growth to accelerate, above 7% in 2016, making India the world's fastest growing major economy.

Prime Minister Modi's government has made some strides in easing business regulations which has attracted some large foreign direct investments in the technology and transportation sectors. The government has used a windfall from lower energy subsidies (due to the drop in oil prices) to boost public investments. However, private business investment remains subdued.

We expect recent cuts in central bank interest rates to encourage business investment although an eventual pick-up in oil prices could act as headwind. A bill to replace provincial taxes with a national goods and services tax has been stalled by the opposition in the upper house of parliament, where the government does not have a majority. An agreement with the opposition to approve the bill could provide further impetus to corporate investment as it would pave the way for a truly 'national' market for goods and services (by doing away with inter-state taxes).

Brazil and Russia likely to turn the corner

Brazil and Argentina, Latin America's largest and third-largest economies, are likely to recover gradually in 2016, after sharp contractions this year. The election of the business-friendly President Macri is positive for Argentina and could set the stage for more pro-market governments across Latin America. An eventual recovery in oil prices could also benefit the region, particularly the major oil producers such as Brazil and Mexico, and provide some relief to Venezuela.

Mexico, Latin America's second-largest economy, is a major beneficiary of sustained expansion in the US economy. The economy is likely to accelerate for the third straight year on the back of private consumption and exports. In Brazil, impeachment proceedings against President Rousseff could prolong uncertainty in Latin America's largest economy, restraining a recovery. There is a risk that the proceedings could continue late into 2016, depressing growth across the region.

Russia's economy would also get a boost from any recovery in oil prices and a decline in inflation which has enabled the central bank to cut rates. Any decision to lift Western sanctions on Russia, as the two sides coordinate their fight against terrorism in Syria and Iraq, would be a positive surprise for the economy.

Key risks

Policy errors. With most Developed Markets dependent on continued easing, policy errors remain a key risk. Central banks risk tightening too soon or too late, causing either a growth downturn or renewed inflation worries. However, central banks have navigated policies reasonably well so far and, in recent months, have delivered clear-and-consistent communications to avoid surprising markets. This gives us some comfort

A sharper-than-expected path of Fed rate hikes is an example of possible policy risk which could lead to sharp slowdown in US growth and increase market uncertainty. However, we expect US inflation to be restrained by a still-strong US dollar, enabling the Fed to pursue a gradual path of rate hikes

European politics remains a risk, with the rise in far-left and far-right parties across the region. The UK's referendum on EU membership, ongoing influx of migrants and the coming review of sanctions against Russia could be other key flashpoints.

An Emerging Market crisis caused by a hard-landing in China remains one of the biggest risks. However, this risk seems more remote today compared with a year ago given the reforms implemented by China in recent years, the government's substantial reserves and its willingness to provide support to soften the slowdown

A sharp spike in oil prices due to a shift in OPEC policy or due to geopolitical shocks remains a worry. A rapid surge in oil prices would likely impact most Developed economies as well as Asia. However, we see limited scope for a sharp upturn in prices, given the high US inventories and OPEC's latest decision to effectively remove production limits on members

A sharper oil price drop could hurt major producers such as Russia, Venezuela, Iran, Nigeria and Ghana. Gulf Cooperation Council producers are likely to be partly shielded by their sizeable reserves

Sustained gains in the US dollar could further hurt US exporters, while causing inflation across Emerging Markets (due to further currency depreciation). This could increase volatility and dampen global growth. We see US dollar gains as self-limiting, as excessive gains lead to a slowdown in the US economy, causing the US dollar to give up its gains. The self-adjusting mechanism was apparent in 2015

Low borrowing costs could accentuate excessive risk taking, leading to new asset bubbles. However, deleveraging by banks and consumers and tighter regulatory and macro-prudential policies have helped curbed excessive gains, especially in property markets

Thematic
China on the road to reform

| Arun Kelshiker, CFA |

What's happening with China's reforms lately - Up and running or simply falling short?

One of our key themes in 2015 was the need for Emerging Markets to reform. As expected, China has been one of the most aggressive in this regard.

With hindsight, China's pivotal "Third Plenum Party Congress" in October 2013 was a milestone event in setting its reform agenda. The resultant plan focused on a new role for the government moving to a market-driven model and an agenda including reform of state-owned enterprises, fiscal reform, integrated rural-urban development and land reform as well as a huge anti-corruption drive.

Here, we provide an update on where we are with regards to the reform agenda and what investors should look out for in 2016.

The government's balancing act at home

Policymakers are pursuing a balancing act between implementing reforms, avoiding an excessive build up in leverage and interventionist policies to ensure a slowing, rather than stalling, economy. The past year has seen the People's Bank of China (PBOC) announce a scrapping of the ceiling on deposit rates as it tries to deregulate interest rate markets. This is aimed at simultaneously encouraging retail investors to place money in the banks rather than relying on riskier wealth management products for returns, while also providing liquidity for the banking sector to support economic expansion. The latter has been reinforced by six interest rate cuts over the past year.

Creating the foundations for a fiscal stimulus

We have also seen the government put in place a debt-for-bond swap program for local governments in March totalling potentially USD625 billion. The key aim is to tackle growing issues with unregulated shadow banking and the systemic risks with increasing local government debt piles. It may also be the precursor to a fiscal expansion should the authorities believe this is necessary to support growth and improve the country's infrastructure.

Increasing influence overseas

Two thousand years ago, the famous Silk Road was the trade superhighway which connected traders from the East to the West. The Chinese government plans to invest over USD200 billion in the new One Belt, One Road project, including road, rails, oil and

One belt, one road

gas pipelines and ports. This is an opportunity to grow China's economy internationally and Russia, Hungary, Iran and Pakistan are already on board.

Providing financial support

We also saw the formation of the Asian Infrastructure Investment Bank, proposed by China in 2013. The bank offers an alternative to the IMF and World Bank and was incorporated in 2015 with 56 founding member countries, with the notable absence of the US, Japan and Canada. The bank has a focus on supporting infrastructure construction in the Asia-Pacific region.

Encouraging foreign participation in equity markets

It has been very clear the authorities want to encourage increased foreign participation in China's financial markets both offshore and onshore, but the clearest area where this has been visible has been in equity markets. The authorities appear to be working towards fulfilling the key requirements for increasing China's weight in the major global benchmarks. While this is bearing fruit in offshore markets, there are still challenges to onshore markets.

Increased weight in Emerging Market indices

MSCI announced the inclusion of China American Depositary Receipts (ADRs) into its MSCI China index in November. The ADRs are securities of companies which are traded on American stock exchanges. Since the MSCI indices are closely followed by institutional investors, we expect significant flows into China ADRs, with estimates of close to USD7 billion by May 2016. The major beneficiary of the change is the Chinese technology sector, with many internet company names as clear winners.

Challenges to foreign onshore flows

The Shanghai-Hong Kong Stock Connect, launched in late 2014, has seen disappointing flows and other 'stock connect' plans have been postponed. In addition, the much anticipated inclusion of Shanghai-listed China A-shares into MSCI indices didn't take place, with MSCI citing concerns around quota, liquidity and ownership issues. Upon inclusion, China A-shares could see up to USD50 billion of flows. Currently, it looks to be more a case of when, rather than if, they will be added.

CNY achieves global status

The Chinese government has long been questioned over its policies when it comes to setting the USD-CNY exchange rate. This year has seen remarkable developments which set the stage for the CNY to establish itself as a global currency. In August, Chinese authorities managed a surprise currency devaluation which heightened currency volatility and led to sizeable interventions.

In November, the International Monetary Fund officially announced that the Chinese CNY would be accepted into its Special Drawing Rights (SDR) basket of reserve currencies. The decision is more symbolic and has less immediate transactional benefits, but it does mark a major milestone in China's quest to make the CNY an international currency.

Geopolitical challenges to reform

Regional geopolitical risk has escalated in recent years. The US, keen to maintain its global leadership, has executed on a strategy to "pivot" to Asia. The US-led Trans Pacific Partnership (TPP) aims to support and grow economic and political ties with Asia. Meanwhile, China's global ambitions have led to tense relations with Japan over disputed territories in the South China Sea. With international initiatives such as the Silk Road project, China is building bridges with the region even as it projects its military might. However, it is unclear exactly how this will play out in the coming years.

China's long-term picture

China's growth over the past three decades has averaged 10% a year, mirroring Japan's 30-year rise since the 1960s. The growth is now waning as contributions from labour, capital and productivity slow down. However, China's importance has grown significantly on the world stage. In 1989, China's share of World GDP (at PPP) stood at 4.1%; in 2014 it stood at 16.3%, highlighting the economy's increased contribution to global growth. Meanwhile, its GDP per capita is much lower than that of Japan, suggesting still-significant scope to play catch-up.

Look out for more reforms

We expect China to accelerate key reforms in 2016 and 2017. The focus is likely to shift to fiscal and tax reforms, restructuring of state-owned enterprises, additional capital market reforms and environmental initiatives aimed at supporting green business strategies. While China's growth may not be as strong as in the recent past, we believe it will manage the transition from a fast-growing, investment-led economy to one with a slower, more sustainable consumer-driven growth profile, avoiding a hard-landing.

In closing, it's worth highlighting that Chinese authorities are following their own pace for financial liberalisation and global engagement rather than taking cues from financial markets and other international participants. China's political and economic decisions now impact the rest of the world and, as the IMF's recent decision to include the CNY in its SDR basket shows, its global role is set to expand over time.

Thematic
Where are we in the US economic cycle?

| Manpreet Gill |

Late cycle, but no recession in 2016

Since the Global Financial Crisis, the bull-run in global equity markets has been nothing short of spectacular. The S&P500 has more than tripled from March 2009 lows and the MSCI All-Country World Index has gained 146% over the same period.

As we head into 2016, we recognise this will be the 7th consecutive year of recovery after the financial crisis of 2008/09, making it the fifth longest cycle in a hundred years. While history shows expansion periods tend to be longer after severe banking or financial shocks, the most important question for investment decisions is – how much longer does the current cycle have to go?

We focus on the US cycle as it is the outlook that is most under scrutiny amongst the major economies – it is generally agreed Europe/Japan are mid-cycle and China is experiencing a structural slowdown. Our analysis has led us to believe that we are currently in the late stages of the US economic cycle (see Figure 6). The precise length of 'late stage' is unclear (i.e. six months or three years?), but we nevertheless see a low likelihood of a recession occurring in 2016.

Getting a good feel of where we are in the cycle matters for asset class performance. We see that risky assets continue to outperform until approximately six to twelve months before the peak of the cycle. We note the effect on equities and fixed income securities below. We remain comfortable holding riskier assets, however, our analysis emphasises the importance of keeping a close eye on macro indicators.

Equities

Our past cycle analysis shows that equity markets begin to suffer 6-12 months in advance of a recessionary period. Within the equity asset class, value strategies then start to outperform growth strategies, on a relative basis, into and throughout recession years. We note that equity market growth strategies have outperformed value strategies for seven consecutive years now and we would watch for indicators to signal when investors should consider rotating into quality assets.

Fixed income

Up to the six months leading into a recession, high yield bond outperformed investment grade bonds. This relationship has subsequently reversed as government bonds started to outperform both high yield and equities (See Figure 7). Emerging Market USD sovereign bonds delivered positive returns right until the start of a recession (possibly due to their combination of credit spread and high sensitivity to gains in US Treasuries).

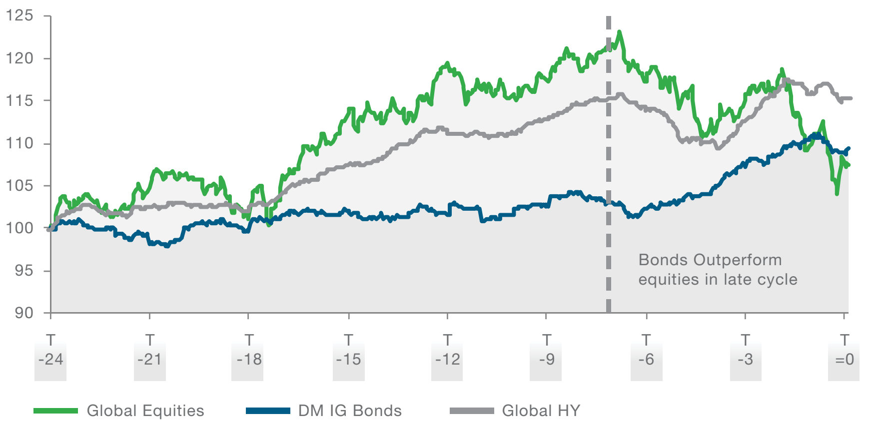
Figure 6: US economic indicators of expansion/contraction

Indicator	Near-peak/peak/past-peak
FINANCIAL INDICATORS	
Credit availability	>>>>>
Consumer and corporate lending	>>>>>
Financial conditions	>>>>>
Inflation	>>>
CONFIDENCE INDICATORS	
Business confidence	>>>>>
Consumer confidence	>>>>>
LABOUR MARKET	
Unemployment rate	>>>
Jobless claims	>>>>>
HOUSING AND CONSUMPTION	
Home sales	>>>
TRADE, MANUFACTURING AND PRODUCTION	
Global trade	>>>
Manufacturing PMI	>>>>>>>>
New orders & inventories	>>>
CORPORATE HEALTH	
Corporate margins	>>>>>>>>
Corporate lending standards	>>>>>
Corporate spreads	>>>>>

>>> Near-peak
>>>>> Peak
>>>>>>>> Past-peak

Figure 7: Government bonds outperform in late stage of a cycle

Data suggests government bonds begin to outperform equities and high yield bonds six months before a recession



X-axis denotes months from recession (T=0 is start of recession)

Source: Bloomberg, Standard Chartered

Bonds
More constructive, raise allocation

| Manpreet Gill | Abhilash Narayan |

Key themes

We expect bonds to outperform commodities and cash, but underperform equities. We would hedge currency risks on Developed Market government bonds.

We prefer US Treasuries over German Bunds and Japanese Government Bonds. Fed communication efforts are likely to contain rises in Treasury yields.

Prefer corporate bonds over sovereigns. US High Yield is our preferred sub-asset class, followed by US Investment Grade.

Across Emerging Markets, we favour USD bonds over local currency bonds. Within local currency bonds, we prefer Asia over other regions. We will closely monitor oil price developments and remain open to re-evaluating this stance in 2016.

We expect the gap between 2-year and 10-year US yields to continue to narrow. This suggests 5-7 year average maturity profiles for USD-denominated bond allocations offers the best risk/reward.

Raising allocation to bonds

2015 has been an eventful year punctuated with bouts of market volatility. While we are arguably closer to the first Fed rate hike in almost a decade, the 10-year US Treasury yield is only slightly higher than at the start of the year. In contrast, German Bund yields are also slighty higher despite the onset of European Quantitative Easing (QE). Corporate bonds cheapened as credit spreads widened owing to concerns about credit quality.

As we look forward to 2016, we believe three factors are likely to drive bonds:

- The pace of rate hikes in the US and communication from the Fed.
- A continued low yield environment, where corporate bonds, which offer additional yield over government bonds, are likely to deliver higher total returns.
- Low risk of significant downside to global growth.

Figure 8: Over the past year, corporate bond yields rose while government bond yields are only slightly higher

Yields offered by various categories of bonds today vs. a year ago

Yields	31 Dec 2014	4 Dec 2015	Interest rate sensitivity*
10-year US Treasuries	2.17%	2.27%	8.8
10-year German Bonds	0.54%	0.68%	9.2
EM Sovereign Bonds	5.62%	6.19%	6.6
Global High Yield Bonds	6.68%	7.55%	4.3

Source: Bloomberg, Standard Chartered Bank
* Percentage change in price for 1% change in yield

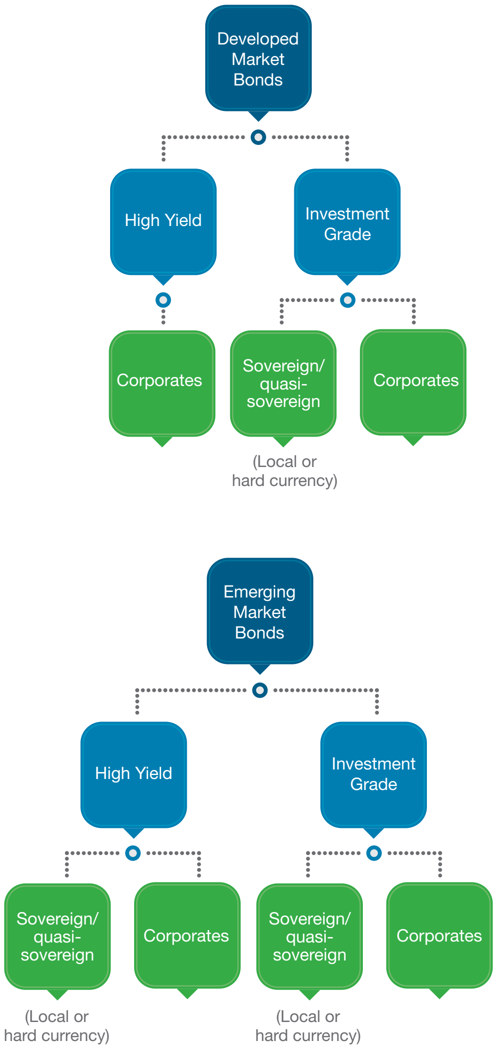
Fed in the driving seat

We believe the pace of rate hikes from the US Fed matters more than the date of the first rate hike and that the Fed is likely to be cautious about hiking too quickly. Returns on US Treasuries are likely to be negative if rates are hiked at a faster pace than the market's current expectation. While the Fed's own forecasts still point to a faster pace of rate hikes than market expectations, we believe there is a high likelihood these forecasts will be scaled back. Fed Governors have reiterated many times that rate hikes are likely to be gradual while Fed Chairperson Yellen has pointed out that a rapid pace of rate hikes could push the economy into a recession. Therefore, we believe the Fed is likely to err on the side of caution and bring its forecasted pace of rate hikes towards where the market is today. On its own, this is a supportive factor for bonds.

Raise bond exposure as a hedge

As we discuss elsewhere in this report (see page 22), we believe we are in the late stage of the US economic cycle, albeit with some room to go. History suggests bonds tend to outperform equities in the year leading up to a recession. Although we are positive on risky asset classes, we believe it is prudent to start raising exposure to bonds over the course of the year, viewing them as a hedge. We prefer to hedge the currency risk for Developed Market government bonds, as currency movements can overwhelm the low yields on offer (see page 55 for a more detailed discussion). We have a preference for the US over Europe and Japan across sovereign and corporate bonds.

Figure 9: A map of the way we look at the global bond universe



Source: Standard Chartered

Maintain 5-7 year maturity profile

History suggests short-term yields rise faster than long-term yields in a rate-hiking cycle. We do not see any reason why this time should be any different. We expect 2-year yields to rise faster than 10-year yields as they have done in the past year. We expect the 10-2 yield curve to flatten (i.e, the difference between 10-year and 2-year yields to narrow), a view we are happy to carry on from 2015 to 2016. However, 10-year bonds are more sensitive to changes in yields compared to 2-year bonds. Hence, on balance we believe an average maturity profile centred around 5-7 years optimises the risk/reward for USD-denominated bond allocations, a view we will revisit once we have a clearer picture of the pace of Fed hikes.

Government Bonds

G3 government bonds – constrained by low yields

Within government bonds, we prefer the US over Europe and Japan. While the prospect of a US rate hike is now well-known, we do not see any cause to be overly concerned. While rising yields may lead to some capital loss on bonds, we believe the coupon return is likely to offset it. However, we continue to prefer US Treasuries over Japanese and German government bonds due to reasons highlighted below.

Demand dynamics support US Treasuries

For government bond investors, US Treasuries are attractive. As counter-intuitive as it may sound, US Treasuries offer a very attractive yield when compared with German Bunds and Japanese Government Bonds. The relatively higher yield pick-up over German Bunds is likely to attract European investors and should keep the Treasury yields capped, in our opinion.

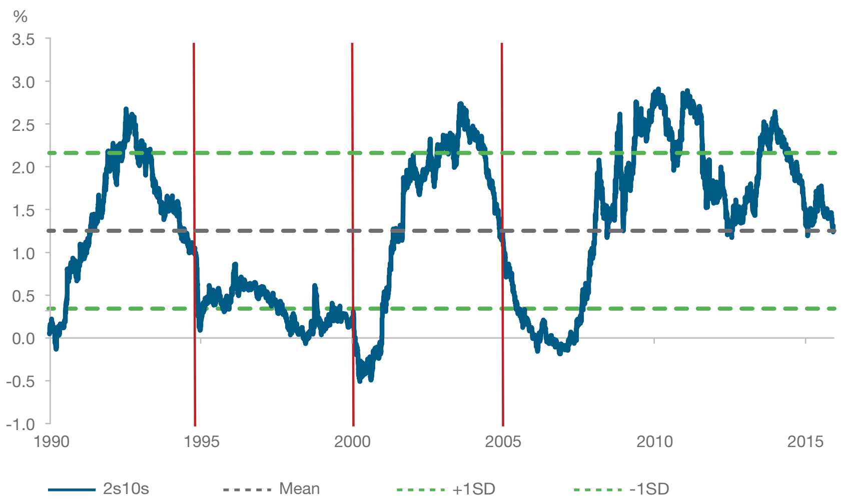
Lower supply points to technical support for US Treasuries. The narrowing government deficit in the US and the Treasury's decision to meet a greater proportion of their requirements from short-term debt is likely to lead to lower supply of US Treasuries next year. Estimates suggest supply could be 25% lower.

Negative on European and Japanese government bonds

Low yields and currency risk are likely to weigh on European and Japanese government bonds. With the average government bond yield below 1%, European and Japanese bonds are expensive on most traditional measures. While easing monetary policy remains a supportive factor, the low absolute level of yields means even a very small fall in the price of bonds (or rise in yields) would

Figure 10: USD yield curve likely to flatten further

Spread between 10-year and 2-year US Treasury yields (red lines mark the start of the Fed rate-hiking cycle)



Source: Bloomberg, Standard Chartered

Although we are positive on risky asset classes, we believe it is prudent to start raising exposure to bonds over the course of the year, viewing them as a hedge.

lead to negative returns. Additionally, our bearish view on EUR implies the risks of added currency losses, in USD terms.

The main risk to our preference for US Treasuries is if US inflation spikes, which could compel the Fed to hike at a faster pace than we expect.

Emerging Markets USD government bonds - A balanced picture

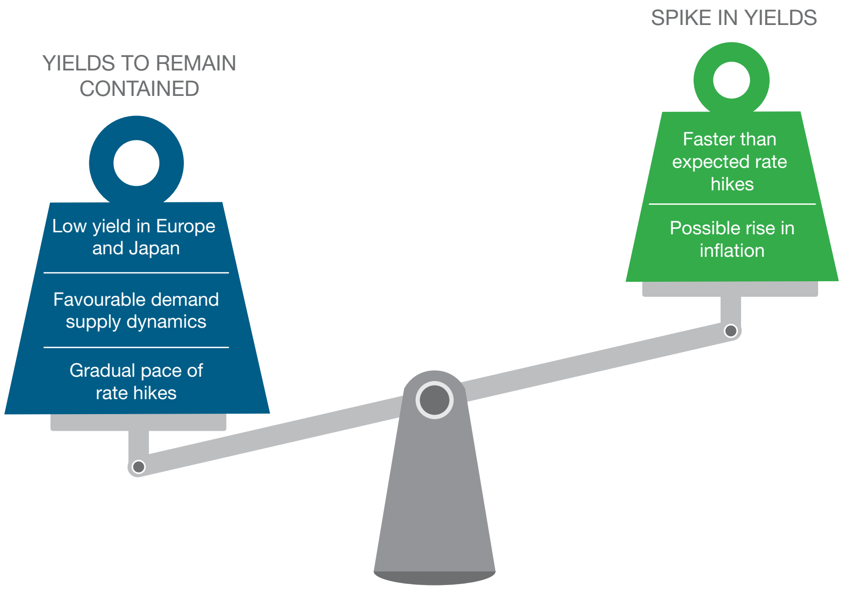
In our opinion, USD Emerging Market sovereign bonds offer a balanced risk/reward. EM sovereign bonds were our top pick last year. Heading into 2016, they remain a core holding for us, but we see better risk/reward elsewhere. Credit quality deteriorated in 2015 and the ongoing slump in commodity prices is likely to place further downward pressure on sovereign ratings. That said, we believe the weakness is already captured in valuations, which are inexpensive.

Investment Grade vs High Yield sovereign bonds

On the margin, we prefer Investment Grade (IG) EM sovereigns over High Yield (HY) sovereigns. Both IG and HY segments within EM sovereign bonds are cheap relative to history, but face distinct challenges. Within the IG segment, a few sovereigns risk being downgraded to HY, whereas HY sovereigns have a high exposure to commodities, especially oil. Given the risks from a Fed hike and commodity prices, we prefer the shelter of higher quality IG sovereign bonds for now. However, should oil prices bottom at some point in 2016, this is something we will revisit.

Figure 11: US yields likely to remain contained

Factors arguing for and against spike in US yields



Source: Standard Chartered

Figure 12: EM sovereign bonds are cheap relative to history, but face risks from commodity prices

EMBI composite spreads

Source: JPMorgan, Bloomberg, Standard Chartered

Corporate bonds - More optimistic

We prefer corporate credit over sovereigns. In an ultra-low interest rate and yield environment, we believe corporate bonds will outperform sovereign bonds owing to the extra yield on offer. History suggests while the ride in corporate credit can be bumpy in the six months before a Fed rate hike (as it has been in the last few months) they usually deliver superior returns once the Fed starts hiking rates. Intuitively, this makes sense – besides offering a higher coupon, the spread over government bond can compress, potentially offsetting the effect of rate hikes.

We prefer US over other regions

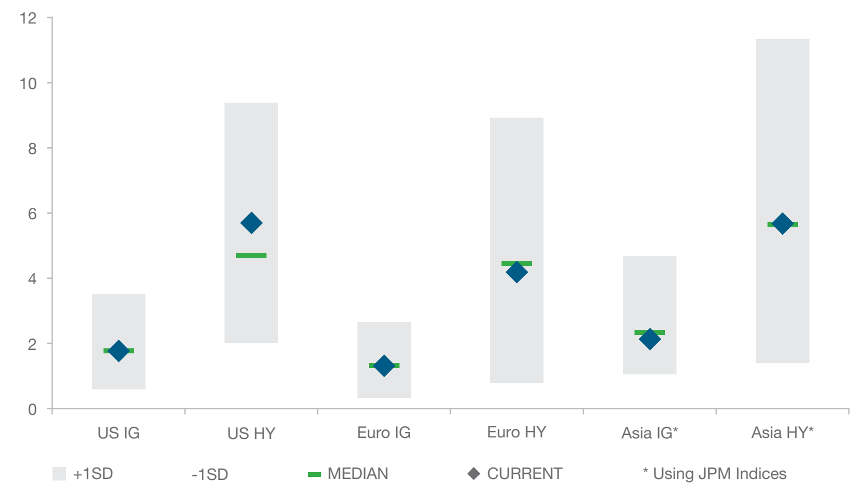
Wider spreads (yield premium over US Treasuries) compared with history mean US corporate bonds are cheap and provide scope for outperformance through spread compression. While tight spreads in Europe are not surprising given ongoing Quantitative Easing (QE), we believe there is less scope for outperformance because spreads are already tight and yields are low. Hence, we prefer US corporate bonds due to their cheap valuation and absence of currency risk.

Positive on US Investment Grade Corporate bonds

Spreads on US IG corporates have compressed since we turned positive a few months back. While they remain close to fair value versus history, we believe there is room for further spread compression. Given we are living in an era of unprecedented low rates, even a yield of 3.5% for high quality bonds cannot be ignored. We believe demand for high quality bonds is a supportive factor for US IG corporates. While credit quality has begun to deteriorate, it starts from a strong base. We believe a combination of these factors is likely to drive outperformance.

Figure 13: US High Yield bonds are cheap relative to history

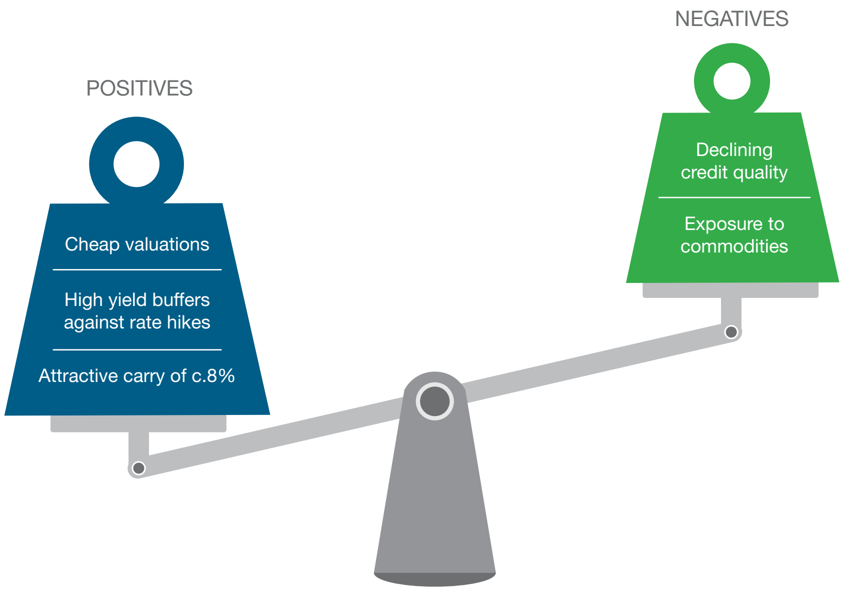
Credit spreads by region



Source: Barclays Capital, Bloomberg, Standard Chartered

Figure 14: Why we like US High Yield corporate bonds

Factors arguing in favour of and against US HY bonds



Source: Bloomberg, Standard Chartered

Positive on US High Yield Corporate bonds

US High Yield corporate bonds remain our top pick as they offer a yield of over 8%, which is very attractive in today's environment. Concerns about credit quality, especially for shale oil producers, are well-known. At current spreads, US HY is cheap and we believe the market has already priced-in these concerns. Admittedly, the default rate could rise, but we expect it to remain at benign levels relative to history, as we believe the US economic cycle still has some time to go. The attractive coupons and cheap valuations mean US HY bonds are likely to outperform.

Cautiously Positive on Asia ex-Japan Corporate bonds

We continue to be cautiously positive on Asia ex-Japan USD corporate bonds. Asian corporate credit is fairly priced compared with its historical average. However, the universe remains dominated by Chinese issuers which are likely to face headwinds from a slowing economy. While the average credit quality in Asia IG has remained largely stable, it has deteriorated within the High Yield segment. Within Asia HY corporates, we remain cautious on Chinese industrials and Indonesian corporates. That said, Asia is still a defensive play compared with EM corporate credit elsewhere (which remains sensitive to the commodity price outlook) and is likely to be supported by strong demand from Asian investors. Thus, while we are comfortable with Asian credit, we do not see sufficient reason to favour it over US corporate credit.

Cautiously Positive on European High Yield Corporate bonds

Lower absolute yields lead us to maintain a balanced view of European High Yield corporate bonds. Of late, we have been asked about European corporate bonds. This is not surprising given ECB policy efforts and improving credit quality in Europe. However, European HY corporate bonds are expensive relative to history (Figure 13). This means potential capital gains from spread compression are much more limited, in our opinion. Additionally, yields on European HY corporates are about 2.5% lower compared with US HY corporates. Hence, on balance, US HY still appears more attractive than European HY, in our view.

Positive on subordinated bank debt

Subordinated bank debt offers an alternative to High Yield bonds. Selectively going down the capital structure of strong, well-capitalised banks offers a good opportunity to obtain higher yields without substantially compromising credit quality, as most large banks are rated much higher than HY corporates. Banks have arguably become much stronger owing to strict regulations in the aftermath of the financial crisis, which require them to hold more capital and reduce leverage. The constant regulatory scrutiny and reduced ability to take risk is good news for bondholders. Selective forays into bank subordinated bonds could offer a lower volatility alternative to High Yield bonds.

USD-denominated bonds vs Asian Local Currency bonds

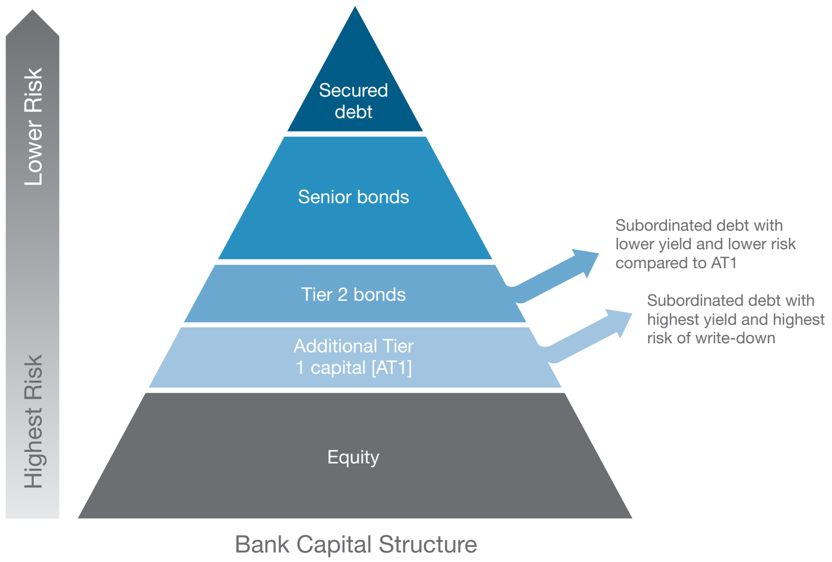
We remain selective on Asian local currency bonds as we expect them to underperform USD-denominated bonds. Apart from a few exceptions, Asian currencies could still face near-term pressure from a stronger US Dollar in the early part of 2016. Since currency risk is a big driver of returns in local currency bonds, we believe USD-denominated bonds offer a better risk-reward trade-off at present. Should Asian currencies begin to stabilise later in the year, as we expect, more opportunities may present themselves.

Positive on INR bonds

INR bonds continue to be our top pick within Asian local currency bond universe. Though the easing cycle is closer to the end, we continue to like the high yield offered by INR bonds. Additionally, we continue to believe the INR is likely to remain more resilient compared with other Asian currencies.

Figure 15: Simplified capital structure of a bank

Different classes of bank liabilities



Source: Standard Chartered

Key risks

Faster-than-expected Fed rate hikes due to a pick-up in inflation due to either a rebound in oil prices or an increase in wages.

Sharply slower-than-expected growth would be a positive for government bonds, but could lead to an increase in corporate credit spreads.

Equity
Adaptability will be key in 2016

| Clive McDonnell |

High single-digit to low double-digit earnings growth in 2016 is likely to be supportive of global equities. Valuations in Developed Markets are elevated, but not overvalued if we focus on valuation other than price-earnings ratios. Valuations in Emerging Markets are attractive, but catalysts for a broad based re-rating remain elusive. We are positive on equities in the Euro area and Japan, the former on an FX hedged basis. Cautiously optimistic best describes our view on equity markets in the US and Asia ex-Japan. We are still negative on non-Asia Emerging Markets as we head into 2016.

We view adaptability as one of the key themes and attributes investors will require in the year ahead as we move into a late cycle environment. Importantly, late cycle does not mean the end of the cycle. The average length of the US economic cycle is 59 months, with the shortest cycle length beyond this average being 73 months in 2001-07, and the longest 120 months in 1991-01.

These views are based on our market drivers:

- Earnings support modest gains in global equity markets in 2016. Consensus expectation is for 8-10% earnings growth in the US, Euro area and Emerging Markets (EM). Valuations are elevated, but not extreme, providing support to markets once earnings forecasts are met.
- We expect the dollar to remain strong against the euro, but it may peak against the yen and Emerging Market currencies in H1 2016.
- Oil to bottom in 2016.
- Drawdown risk: we expect an increasing number of greater than 4% equity market drawdowns or peak to trough declines in markets, within what is expected to be a modestly positive trend for global equity markets.

Key themes

Equities to outperform bonds. We expect equities to outperform bonds for the fourth consecutive year.

Positive on Euro area equities (FX-hedged) and Japanese equities. Within Europe, we prefer European small and mid capitalisation stocks over large capitalisation.

Cautiously positive on US equities and Asia ex-Japan. Within the US, we prefer technology and banks and within Asia, we prefer China.

Negative on non-Asian Emerging Markets, specifically: Brazil, Mexico, Turkey, South Africa and Russia.

Figure 16: USD and Oil factor monitor

USD Monitor

✓	US + German 2 year spreads
✓	TED Spread
✓	Fed Funds Futures
✗	ECB QE expectations

Oil Monitor

✗	US inventories
✗	OPEC policy stance
✗	IEA demand/ supply balance
✓	Shale Oil output: increasing/decreasing

Source: Standard Chartered

✓ Bullish for dollar / oil

✗ Bearish for dollar / oil

A potentially weaker dollar against selected currencies and bottoming oil prices have significant implications for asset markets, including equities in 2016. While we don't have enough conviction to confirm such a turning point yet, our 2016 market drivers clearly signal that the era of a strong dollar and the low in the oil price may soon be behind us. Just as we recommend investors be adaptable in 2016, we will also be continually updating our assumptions and will signal a change – in either direction - if the evidence supports it. Factors we are monitoring in the US are highlighted (Figure 18).

For now, we suggest investors be aware that the prior trends of a strong dollar creating headwinds for US corporate earnings and Asian asset market inflows may abate. The damage to US and European corporate earnings due to the 46% peak to trough drop in WTI crude prices may also reverse, with positive implications for earnings in 2016. Indeed, even if the oil price maintains its current trend, the implied impact on corporate earnings is positive.

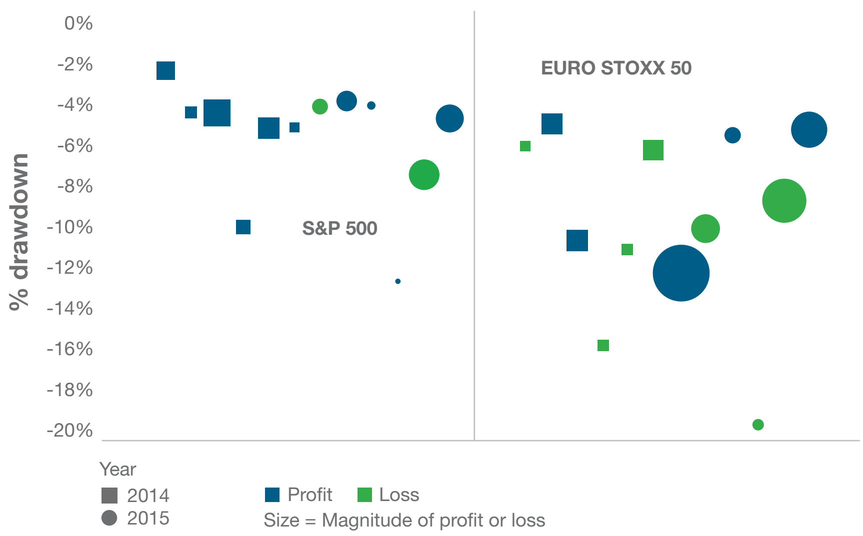
"Plans are useless, but planning is indispensible"

Dwight Eisenhower, 34th US president, did not mean to degenerate the importance of plans. Rather, he believed the plan itself is of limited value, but the exercise of planning/ understanding the risks and opportunities is key. The same can be said for equity markets in 2016. That is, the likelihood of sticking with the plan you outline today for the full year is slim. However, considering the alternatives for the key market drivers now, will enable you to be flexible enough to take advantage of opportunities as they arise.

Drawdowns, or significant declines in markets were a defining feature of US and Euro area equity markets in 2015 and we expect this to continue into 2016. Of the 12 drawdowns which exceeded 4% in these markets in 2015, an investor who entered the market at the level immediately prior to the drawdown would have recorded losses if they held until the next peak in the market on five out of the twelve occasions. This compares with a gain if they entered at the start of the year and held until now. This compares with twelve drawdowns of a similar magnitude in 2014, but entering the market at the level immediately prior to the drawdown and holding until the next peak would have recorded losses on four occasions (Figure 17).

Figure 17: Drawdowns in the US + Euro area are increasing

US + Euro area drawdowns



Source: Standard Chartered, Bloomberg

The message is clear – drawdown risk and market volatility is increasing. This is a normal feature of a late cycle environment. While investors need to be adaptable, investments must still be based on specific themes and market drivers, acknowledging that these may change as the year progresses.

We expect equities to outperform bonds for the fourth consecutive year. Nevertheless, we do have a US market check list to monitor in case we need to adapt this view during 2016 (Figure 18). This is similar to the check list we highlighted in the 2015 Outlook report, where four of the 12 factors on the list were flashing red. Currently 5 are flashing red.

Figure 18: US market check list

Market Indicators

- ✗ 17x Forward PE for S&P500
- ✓ Domestic outperforming global
- ✓ Defensives outperform cyclicals
- ✓ Credit sensitivities
- ✓ Declining breadth
- ✗ Flattening yield curve

Global indicators

- ✓ Slowing global growth
- ✗ Rising EM credit risk
- ✗ Significant dollar strength
- ✓ International contagion to the US

Domestic Indicators

- ✓ Fading employment momentum
- ✓ Stalled housing recovery
- ✗ Policy wild card
- ✓ Inflation/deflation scare

Source: Standard Chartered

✓ Bullish for US equities

✗ Bearish for US equities

Euro Area

Positive

+

A continuation of stimulative ECB policies and a change in leadership from export heavy sectors to those with a focus on domestic demand are expected to be amongst the key drivers of Euro area markets in 2016. Valuations are elevated, but we expect earnings to assume leadership from multiple expansion as the primary driver of markets. We would maintain our Euro FX hedge in 2016, but are mindful of our assumption that the dollar may weaken against selected currencies and will adapt to this if necessary.

Investors may remain puzzled by the double digit performance of Euro area equities this year, second only to Japan in performance amongst large Developed Markets. While domestic demand is currently soft – we expect an improvement in 2016 – the export side of the region has done very well, aided by a weak euro. This has boosted the revenue of exporters and helped offset weakness in domestic demand. This is in line with policymakers' view that the recovery will start with exports, before spreading to domestic demand. Initial signs are that domestic demand is recovering and we expect a further acceleration in 2016.

We expect small and mid cap stocks in the Euro area to outperform large caps in 2016. Our analysis highlights that this investment style outperforms during the up-cycle and performs in line with large caps during the down-cycle. Key drivers of the outperformance centres on M1 money supply growth (Figure 19) is rising rapidly thanks in part to negative deposit rates for banks, which is resulting in banks introducing more fees and charges for customer deposits.

Key drivers of our view include:

- Consumption recovery. Consumer staples, industrials and technology, which are export heavy sectors, were the top performers in 2015, rising 21/10/16% respectively through early December. We expect leadership to change with consumer cyclicals outperforming in 2016. Drivers of the recovery include easier access to credit from banks and a broadening of the employment recovery.
- Corporate earnings. Euro area earnings are expected to grow by 8% in 2016, compared with 5% growth in 2015. Technology sector is expected to lead the pack, with a forecast 15% increase in earnings. Similar to the US, energy sector earnings should turn from a headwind to a tailwind.
- Continued stimulative policies by the ECB. At its early December meeting, the ECB cut the deposit rate and extended quantitative easing. Both measures are expected to encourage banks to ease lending conditions and boost the narrow measure of money supply.

Figure 19: Euro area money supply is a driver of small cap performance

Euro area M1 money supply and small and mid cap performance

Source: Standard Chartered, Bloomberg

United Kingdom

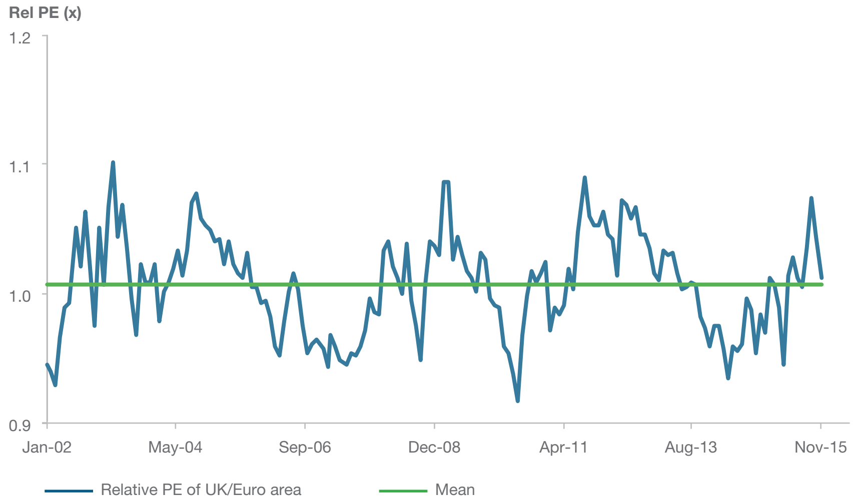
Negative

We are bearish on the prospects for the UK market due to its heavy exposure to commodities and uncertainty surrounding its vote on leaving the EU. The energy and materials sector has an 18% weight in the MSCI UK index, compared with 12% for MSCI Euro area. While economic growth in the UK is exceeding that in the Euro area, earnings growth is expected to be below 8%.

We acknowledge that there are risks to our negative UK view given we believe oil prices will bottom in 2016 and stand ready to adapt our view if energy prices rebound strongly. This would boost earnings growth relative to the Euro area. Given the similar valuations in both markets it could give the UK an edge over the Euro area. On a relative PE basis, the UK and euro area are currently fairly valued (Figure 20).

Figure 20: UK/Euro area valuations are in line with long term average

UK/ Euro area relative PB



Source: Standard Chartered, Bloomberg

US

Cautiously Positive

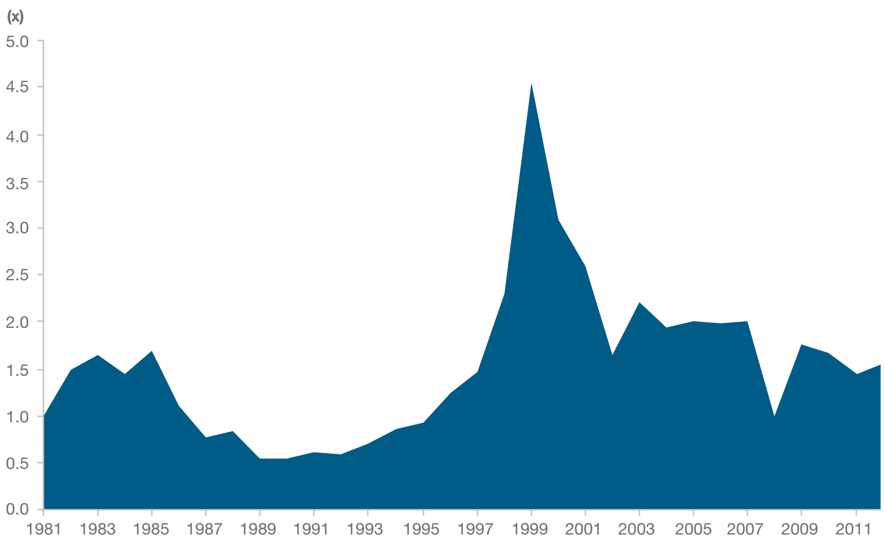
US equities were flat in the year through December 8th. There were five drawdowns during the year which exceeded 4%, with an August drawdown of 11%. We expect this pattern of significant drawdowns to continue in 2016, with a risk that one may exceed the August 2015 11% decline.

One of the key positives in 2016 is a likely return to positive earnings growth. S&P500 earnings growth for 2015 is expected to be flat, dragged lower by a 60% drop in energy sector earnings. Consensus expectations is for 8% growth in 2016 as energy ceases to be a significant drag on earnings. Growth in 2016 earnings is expected to be driven by consumer cyclicals which are forecast to witness 16% growth.

We expect US technology and banks to outperform in 2016. In the technology sector, we expect a continuation of a key driver from 2015: the growth of cloud computing. While this theme has attracted lots of attention, it is estimated that only 25% of the USD228bn market has been addressed. For US banks, we believe that rising rates will benefit net interest margins and in turn earnings, leading to a re-rating of the sector.

Figure 21: US technology sector market capitalisation to revenue remains below prior peaks

Market capitalisation to revenue in US tech sector



Source: Standard Chartered, Bloomberg

Key drivers of our cautious stance include:

- Earnings growth. Recent years have witnessed a steady reduction in annual earnings growth forecasts as the year progressed. In January 2015, earnings were forecast to increase 8% for the year, but are likely to finish the year flat. This leads us to be cautious in reading too much into the consensus forecast of 8% growth in 2016 earnings.
- Credit cycle/Fed. The start of the monetary policy tightening cycle by the Fed and the recent tightening in credit standards to selected parts of the economy, including commercial and industrial and commercial real estate loans, will act as a drag on growth. We do not believe this tightening will tip the economy into a recession in 2016, but we remain watchful and expect the Fed to change course if growth slows more than expected.
- Reduction in headwinds from a strong dollar. The strength of the dollar has been a drag on the market as sectors including capital goods and technology have been held back by the strength of the greenback. While we expect this headwind to ease in 2016, we are not signalling a weaker dollar, for now, which would create a tailwind for the market.

Asia ex-Japan

Cautiously Positive

Equity markets in Asia ex-Japan posted negative returns through December 8th 2015, but divergence remained one of the key trends, which we expect to continue this year. Downward pressure on Asian currencies is expected to ease in 2016 as capital outflows abate. This is potentially positive for Asian equity markets as outflows were one of the key drivers of equity market weakness in 2015 in combination with the China A share sell off.

Asia ex-Japan corporate earnings are expected to recover in 2016, rising by 8% compared to 2% growth in 2015. The main culprits behind the earnings weakness in 2015 were Hong Kong and Singapore. In 2016, India stands out with 17% earnings growth forecast. China is forecast to average 7%. Similar to the US and Euro area, there is a risk that the headline forecast for 2016 is trimmed as the year progresses. Nevertheless, as the market is trading on a price-earnings ratio of 11.5x, below the long term average of 12.5x, there is limited risk of a de-rating due to earnings cuts undermining excessive valuations.

China

We are positive on overseas-listed China shares in 2016, believing recently announced changes with the MSCI China index will have significant positive impact on the market and lead to a pick up in foreign buying. The key changes announced by MSCI centred on the inclusion of ADR's in their indices. This will have the effect of including in the benchmark many of the most innovative technology companies as well as in increasing the weight of consumer cyclicals in the indices at the expense of financials.

As foreign investors frequently cite the large weight of financials in the index and have concerns about asset quality of the banks, the reduction in the weight of this sector should ease concerns, while at the same time increase prominence of companies at the forefront of China's rebalancing efforts. This could re-ignite interest in the market unlocking current attractive valuations.

Figure 22: Asia country views

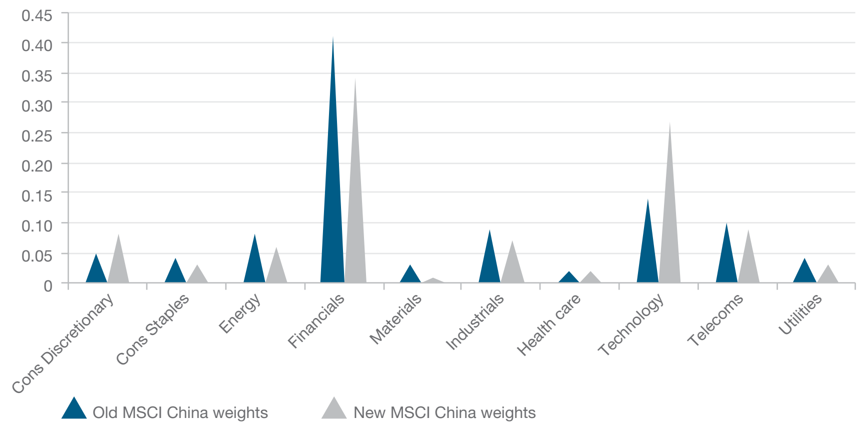
Source: Standard Chartered

Three key drivers of Asian equity markets are expected to turn from headwinds to neutral in the year ahead. If they were to turn into tailwinds, it would have positive implications to our current view.

- Commodity prices. We expect the downward pressure on commodity prices to ease. This will be driven by a combination of a stabilisation in oil prices and the positive effect of El Nino on agricultural commodity prices, which are important for many ASEAN economies. We don't expect the downward pressure on base metals to ease.
- Progress on re-balancing in China. China's transition from an industrial economy and export power house to one focused on consumption and services is starting to gain traction. The surge in tourist arrivals to Thailand and Korea has boosted the services sector in these economies. While these trends are having an impact on Chinese growth trends, for now they are offsetting weak industrial growth as opposed to lifting the broader economy. Asian equity markets could be interpreted as discounting these trends as reflected in the positive returns posted by Korean equities year to date.
- The Fed. While the Fed is expected to increase interest rates in 2016, expectations of this move had significant implications on Asian equity markets in 2015. As such, we believe the turn in the rate cycle should not destabilise Asian markets given it is well flagged and reflected in valuations.

Figure 23: Technology weight in MSCI China increase at the expense of financials

MSCI China new + old sector weights



Source: Standard Chartered, MSCI

Singapore

We are cautiously optimistic towards Singapore in 2016, focusing on low valuations with a catalyst to come from rising US and local interest rates. There are also tentative signs of a bottoming in domestic demand, helped by a tight labour market and growth in incomes at the lower end of the wage spectrum.

- Valuations. Despite economic headwinds that are likely to persist into 2016, we believe equity valuations have largely priced in macro concerns. The MSCI Singapore index trades on a 12 month forward price earnings multiple of 11.5x compared to a long term average of 15x.
- Domestic demand. Against a backdrop of a slowing economy impacted by global macro conditions, domestic demand appears to be stabilising, with y/y retail sales growing in recent months to a range of 4-6% and capital goods imports growth contracting at a slower pace.
- Corporate earnings. Consensus expectations is for 6% earnings growth in 2016, compared to a similar contraction in the prior year.
- Rising rates. A rate hike by the Fed will impact local interbank rates, leading us to be positive on the banking sector, which could benefit from expanding net interest margins and greater profitability. Valuations for the sector are currently below book value.

India

We are cautiously positive on India, driven in part by optimism surrounding the pick up in FDI and rise in electricity consumption. We acknowledge the challenges surrounding raising private sector investment, but note the government has stepped up public sector investment to compensate.

- Earnings growth. Strong performance in the Indian stock market over the past two years has seen valuations increase to the current 17x 12-month forward earnings estimates. While expensive, we note earnings growth estimates continue to be revised upwards.
- Domestic demand. Consumption and ongoing public sector capex growth continue to show a gradual recovery in domestic demand, thereby supporting growth in the near term. However, weak exports, poor rural consumption on the back of slower rural wage growth and limited private capex growth remains a drag on the economy.
- Reform. Implementation of key bills such as the GST and Land Acquisition Bill has been delayed, but a recent olive branch from the ruling BJP to the Congress party may result in some movement on these long stalled reforms.

Non Asia EM

We are negative on non Asian Emerging Markets, specifically: Brazil, Mexico, Turkey, South Africa and Russia. Our negative stance is driven by the reliance of these markets on commodities, ex Mexico and Turkey. Political developments in Brazil and Russia are also likely to continue casting a shadow on the markets. Valuations for Brazil and Russia are attractive, while Mexico, Turkey and South Africa are expensive. A changing oil price landscape would be important for Brazil and Russia and we stand ready to adapt our view if the oil price outlook changes.

Japan

Bullish

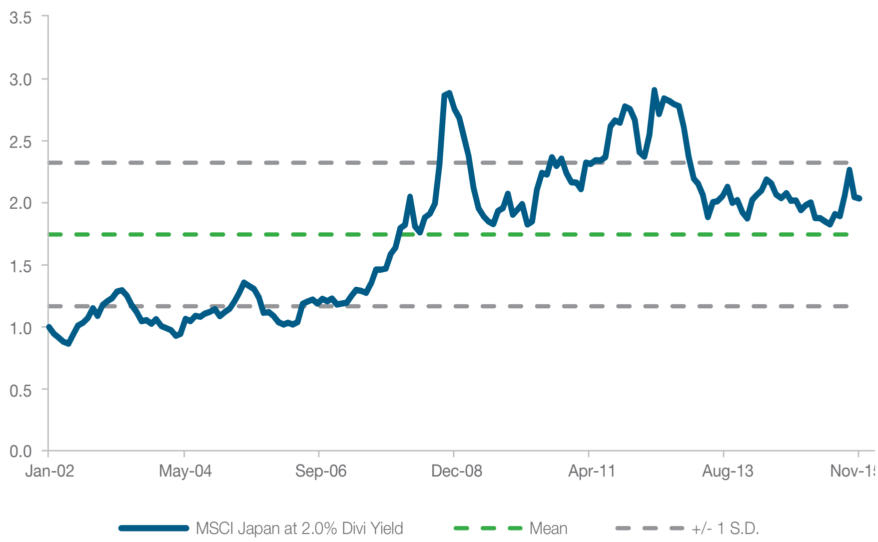
+

Our bullish view on Japan is now implemented without an FX hedge as we believe there is a reduced probability of further quantitative easing by the Bank of Japan, implying the bulk of yen weakness is behind us. Prime Minister Abe's corporate reforms have had mixed success so far, but more time may be needed to change the mindset in the corporate sector.

Following the yen-induced surge in corporate earnings since 2013, consensus expectations are for more modest 11% growth in 2016. While subdued in comparison to the 62% growth recorded in 2013, it still represents the fastest growth in the large Developed Markets. Valuations are still below long term averages at 15x 12-month forecast earnings. Of potentially more importance than headline valuations is the trend for return on equity (RoE), which reflects the progress made on reform in the corporate sector. The current RoE is 8.8% - above the long term average of 8.2%.

Figure 24: Japanese dividend yield has increased in recent years

MSCI Japan dividend yield



Source: Standard Chartered, Bloomberg

Key drivers of our view include:

- Successful implementation of corporate reforms. These include changing the mandate of the Japanese Pension Investment Fund, which has raised its equity allocation to 32% and reduced its bond allocation to 44%. We expect private sector pensions funds to follow suit in raising equity allocations in 2016. Progress on increasing wages remains mixed. However, it is likely tied to the performance of large corporates which are dependent on global growth, in particular international trade, which has been lacklustre. If global growth meaningfully exceeds 3% on 2016, we believe the capacity for corporates to raise wages will increase.
- Rising dividend yields. Current dividend yield in the Japanese equity market is 2%. While this is low by global standards, it is on a rising trend and significantly above the 1.2% average recorded between 2002-06.
- High earnings growth. Consensus forecasts for 11% earnings growth in 2016 is the fastest across large Developed Markets. It compares with 8% in the US and Euro area. Adding in dividends and assuming a flat outlook for the yen, this implies a potential return of 13% in dollar terms assuming no increase in valuations.

Conclusion

Adaptability is expected to be a key theme; an attribute investors will require in the year ahead. Beyond earnings and valuations, the outlook for the dollar, commodity prices and Chinese growth are also viewed as important drivers of equity markets.

We stand ready to adapt our views if/when the direction of these factors change. We are positive on equities in the Euro area and Japan, the former on an FX hedged basis. Cautiously optimistic best describes our view on equity markets in the US and Asia ex-Japan. We are negative on non-Asia Emerging Markets as we head into 2016.

FX
Focus on nuances

| Tariq Ali | Manpreet Gill |

Key themes

Selective USD strength in 2016. We expect USD strength against EUR, CHF, AUD and NZD. EUR and CHF are likely to weaken on continued monetary divergence (at least through H1) while AUD and NZD are likely to move lower on further commodity price weakness.

JPY, GBP and CAD to start the year range-bound. A more stable, or improving, outlook for monetary policy, a strengthening economic environment and energy prices are the main factors. For Q1, 2016 we define technical trading ranges as 1.45-1.60 for GBP/USD, 116-126 for USD/JPY and 1.28-1.40 for USD/CAD.

Asia ex-Japan currencies to bottom later in the year. We expect further downside in the short term as the Fed hikes rates. However, we believe Asia ex-Japan currencies will bottom-out in 2016. We are most constructive on the MYR, IDR and INR relative to the regions' currencies. We also expect the MYR to recover some ground against the SGD.

USD: Not what it used to be...

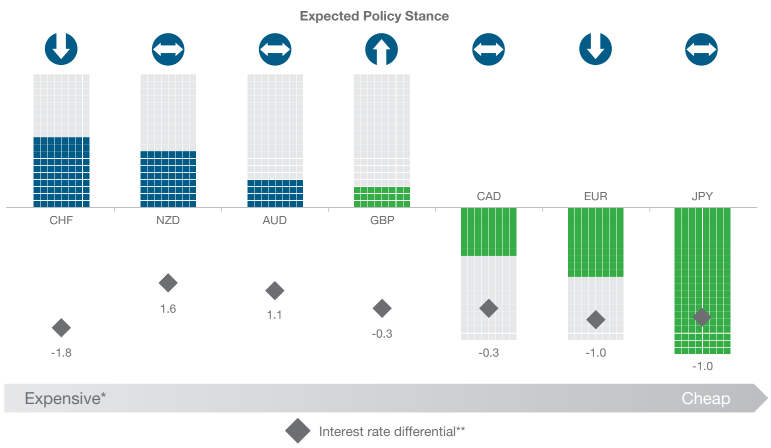
In 2015, the USD rallied strongly against both G10 and Emerging Market currencies as the Euro area, Japan, China and a number of other Asian countries initiated or expanded monetary stimulus, intensifying monetary policy divergence.

We believe broad USD strength is likely to end for two reasons. First, a modest Fed rate hike scenario for 2016 is already priced-in. The Fed is also likely to become more sensitive to USD strength, in our view, this may limit rate hikes should the USD continue to rally strongly. Second, the likelihood of further policy easing in many G10 countries is diminishing, and those that do ease further face the risk of a diminishing impact given how low yields already are.

...but a case for selective USD outperformance remains in place. We still see room for USD strength via continued monetary policy divergence against the EUR and CHF. In both cases, we believe authorities are likely to undertake further policy easing measures. Consequently, Euro area yields are likely to fall further into negative territory, expanding interest rate differentials with the US, and ultimately driving the EUR and CHF lower. We also see further room for USD strength against the AUD and NZD, where our negative outlook on their respective key export commodities argues for more weakness ahead.

Figure 25: In the G10 space, we expect further weakness in currencies with negative yield differentials with the US and expectations of further policy easing

EUR and CHF face the most negative combination



Source: Bloomberg, Standard Chartered
* Valauation based on deviation from historical average of the Real Effective Exchange Rate (REER) since 1980
**Interest rate differential is 2-year respective government bond yield – US 2-year government bond yield

EUR 3M 12M

EUR and CHF: Divergence still dominates

We believe monetary policy divergence is likely to continue to push the EUR lower. We expect yield differentials to widen further between the Euro area and the US, amid our expectations of further European Central Bank (ECB) policy easing and a rise in short-maturity US yields. This significant yield gap is likely to push capital out of Europe in search of higher yielding fixed income assets overseas, sufficient to counteract its current account surplus. We believe the EUR has established itself as a funding currency. The main risk to our EUR outlook is significant risk-aversion and/or volatility in Emerging Markets, which may result in repatriation of flows back into the Euro area, driving the EUR higher.

We expect further weakness in the CHF on similarly rising expectations of additional policy easing against the backdrop of a depressed domestic growth environment and deflationary pressures. We believe the Swiss National Bank (SNB) is likely to follow the ECB in introducing its own set of policy easing measures. The CHF also remains the most expensive G10 currency.

JPY 3M 12M

JPY: Stretched to the limit

While the JPY may temporarily weaken as the Fed hikes interest rates, we do not see a strong case for significant weakness in 2016. In our view, the reduced probability of further Bank of Japan (BoJ) easing amid improving domestic fundamentals and stretched currency valuations are likely to limit further JPY losses. However, we also do not see a near-term catalyst for JPY strength. Fed rate hikes, continued flows into overseas investments and lingering uncertainty on the possibility of additional BoJ QE are likely to keep JPY strength contained. While more BOJ easing action cannot be ruled out completely, we believe this may have a much more muted market impact given how low yields already are. In terms of valuations, the JPY is now the cheapest G10 currency.

GBP 3M 12M

GBP: Brexit vs. rate hikes

We view risks to the GBP as being evenly balanced in 2016. On the positive side, we continue to believe the UK is likely to hike interest rates by the end of 2016. Gains in labour market and services sector data suggest a steady economic recovery thus far, justifying a move towards policy normalisation. On the negative side, the GBP is likely to be affected by debates around its referendum on EU membership. Uncertainty on this front could limit capital flows into the UK. Moreover, tighter fiscal policy is also likely to weigh on growth. Given the balance of risks, we expect the GBP to remain range-bound against the USD.

AUD & NZD 3M 12M

Commodity currencies (AUD, NZD and CAD): Looking less-bad

We expect the AUD to weaken further, though the pace of weakness may slow as we move further into 2016. In our view, there are two main drivers of AUD weakness: commodity prices and policy easing by the central bank. Commodity price weakness is the main factor which is likely to maintain downward pressure on the AUD. This is particularly the case for iron ore, Australia's main export commodity, even if the magnitude of weakness is somewhat smaller relative to 2015. However, further central bank easing appears less likely given incremental positive developments in the domestic economy, including services sector resilience and a pick-up in job growth.

Similarly, we believe the NZD may see further downside amid Fed rate hikes and falling dairy prices. The pace of weakness may slow going into the year as the higher absolute levels of interest rates relative to peers is likely to be a support amid still-low rates in major regions. The volatility environment remains a key risk.

CAD 3M 12M

We expect CAD weakness to end in 2016. After a substantial fall in 2015 following the collapse in oil prices, we believe most negatives are priced into the CAD. While the outlook remains contingent on the evolution of oil prices, even a marginal pick-up in oil prices or a positive domestic growth surprise may be CAD supportive.

Asia ex-Japan currencies: Finding a bottom

We believe Asia ex-Japan currencies will weaken in the short term following the start of a Fed rate hiking cycle as markets discount US interest rate normalisation. Beyond this, however, the outlook may begin to brighten. In our view, major negative factors (the fear of the Fed starting to hike rates and capital outflows) are likely to be less of a concern in 2016. Policymakers are likely to extend policy easing in the region amid still-weak domestic growth. This may increase demand for the region's assets and ultimately support currencies.

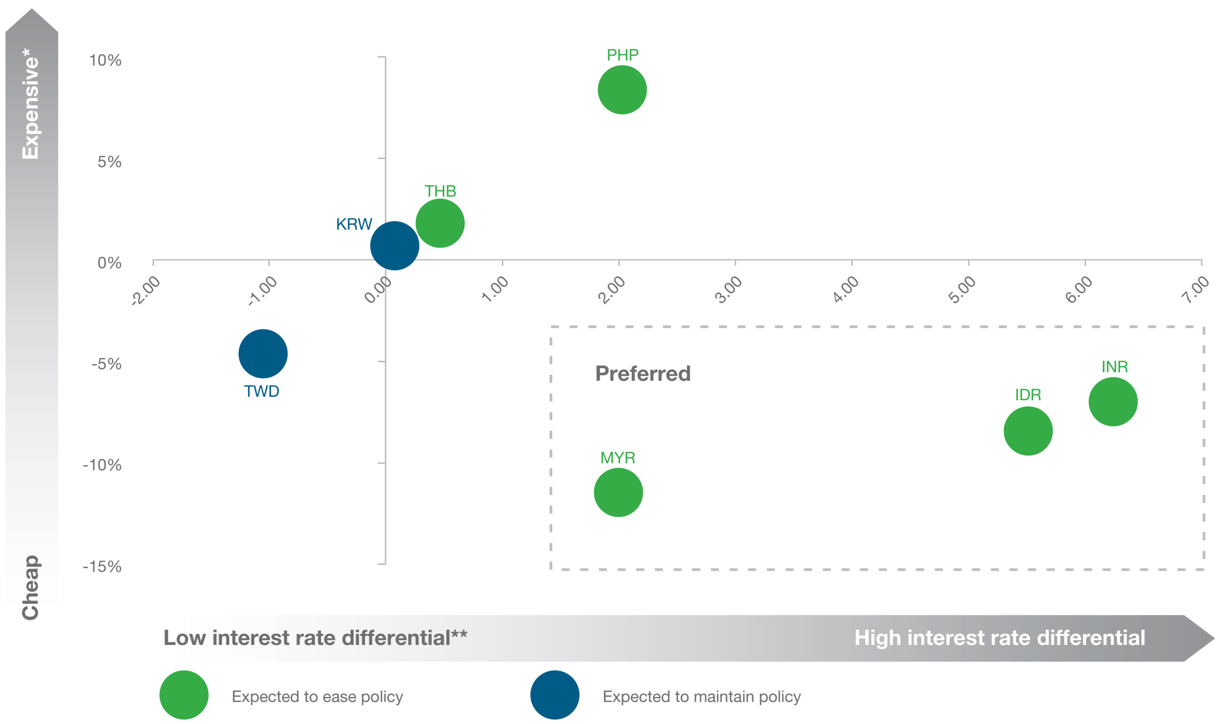
Against this backdrop, our preferred strategy is to focus on currencies with high carry, cheap valuations and increased probability of further policy easing. In this regard, the INR, IDR and the MYR stand out as offering the most room for outperformance. This also means the MYR will see a period of outperformance against the SGD, in our view. The biggest risk to our view is extended uncertainty in Emerging Markets outside Asia in the aftermath of a Fed rate hike.

CNY 3M 12M

CNY: The sky is not falling

The CNY is likely to remain broadly stable against the USD. We do not believe authorities are likely to change existing exchange rate policy of gradual appreciation against a basket of major peers. In our view, concerns regarding China's export competitiveness resulting from the stronger currency are overblown, as we observe continued increase in market share for Chinese exports. Furthermore, the CNY's recent inclusion into the IMF's Special Drawing Rights (SDR) basket is likely to raise support for CNY-denominated assets, which may be supportive for capital flows. The performance of onshore (CNY) and off-shore (CNH) Renminbi is likely to increasingly converge. The main risk to our view is a significant shift in policy favouring significant weakness in the CNY.

Figure 26: In the Asia ex-Japan space, we prefer currencies with current high interest rate differentials, cheap valuations and a strong possibility of policy easing in 2016



Source: Bloomberg, Standard Chartered
* Valauation based on deviation from 10-year historical average of the Real Effective Exchange Rate (REER)
**Interest rate differential is 10 year respective government bond yield – US 10 year government bond yield
Note: CNY and SGD not shown in this framework since these are driven largely by policy

KRW & TWD ↓ 3M ↓ 12M

KRW and TWD: Depressed by low growth

We believe both currencies are likely to remain vulnerable to Fed rate hikes given their low interest rate differentials with the US. Without a strong rebound in China or acceleration of growth in the US, we do not see these currencies strengthening. Furthermore, from a valuation perspective, neither is particularly cheap and, therefore may have further to adjust.

SGD ↓ 3M ↓ 12M

SGD: More downside ahead

Similar to the region as a whole, we believe the SGD is likely to weaken as the Fed hikes interest rates and expectations of the likely path of Fed tightening gets priced-in. Beyond this, we believe a weak domestic growth outlook, falling property prices coupled with persistently low inflation may increase expectations of further MAS policy easing. This poses further downside risk to the SGD.

MYR ↓ 3M ↑ 12M

MYR: Not more of the same

We believe the MYR is likely to bottom-out and move marginally higher against most regional peers in 2016. The sharp fall in commodity prices and concerns of Fed rate hikes have depressed the MYR to near historical lows. We believe sentiment towards the MYR has turned excessively negative, given our view that a financial crisis-like situation is unlikely. Concerns regarding foreign investors offloading part of their significant holdings of Malaysian bonds may have been overblown as there has been little evidence of such a move despite the sharp fall in the MYR in 2015.

We believe the MYR is poised to outperform the SGD for the first time since 2010.The SGD has historically outperformed the MYR in most years as a by-product of existing FX policy. However, we note one of the strongest periods of MYR gains against the SGD was in 1998, the year after the Asian financial crisis which witnessed similarly sharp MYR weakness. While not a perfect parallel, we believe the unusually large MYR weakness in 2015 might result in a relief rally against the SGD.

INR ↓ 3M ↑ 12M

INR: Best of breed

While unlikely to be completely immune to USD gains following a Fed rate hike, the INR remains our top pick in the Asia-ex-Japan region. In our view, strong FX reserves and high interest rates are likely to underpin the currency. Moreover, we expect the RBI to undertake further rate cuts, a likely positive for domestic asset prices, which could potentially revive capital flows into India. Key risks include a major disappointment on policy reforms, a sharp deceleration in domestic growth or a significant and sustained rise in inflation.

IDR ↓ 3M ↑ 12M **THB** ↓ 3M ↔ 12M **PHP** ↓ 3M ↓ 12M

Other Asian Currencies (IDR, THB, PHP): IDR stands out

We believe the IDR is likely to weaken going into the first Fed rate hike. However, similar to the MYR, we do not see reasons for sustained weakness beyond this. Most of the negatives, we believe have been priced in while Indonesia continues to build FX reserves. We expect Bank Indonesia (BI) to cut interest rates which may be positive for domestic growth and attract increased capital flows to Indonesian debt and equities. We expect the THB to move in-line with other regional currencies, but do highlight downside risks if the country fails to revive domestic investment. While the PHP remained resilient in 2015, a number of indicators, including deteriorating growth, suggest this may not continue into 2016. The PHP is among the most overvalued currencies in the region.

Other EM: Cheap, but not cheap enough

Elsewhere in the Emerging Market space, a number of currency pairs including the Turkish lira (TRY), Brazilian real (BRL), Russian rouble (RUB) and South African rand (ZAR) fell to historical lows. Despite this fall, we do not see a strong reason to turn constructive on major Emerging Market currencies as yet. First, many of these pairs are still not cheap from a valuation perspective. Second, a number of currencies (except TRY) remain commodity focused, where we don't see a rebound at least in early 2016. However, a rise in oil prices later in the year may improve the outlook for the RUB. Third, central banks are unlikely to quickly reduce rates to support growth as inflation remains stubbornly high. Finally, idiosyncratic factors also add another dimension of uncertainty. In Brazil, for example, political risk continues to be a key source of concern while the TRY remains vulnerable amid weak balance of payments fundamentals.

Commodities
Not there yet

| Tariq Ali | Manpreet Gill |

Key themes

Negative on commodities. Most commodities continue to face a poor demand/supply balance, though oil and gold face the most room for improvement as we go through the year.

Oil prices may rise by the end of 2016 as the demand/supply gap gradually closes through the year. However, we do not expect oil prices (Brent) to exceed a quarterly average of USD 65/bbl while risks of further downside remain heightened in the short term.

Gold likely to remain range-bound. A modest pick-up in inflation expectations may provide support, but higher US interest rates create a headwind. We expect gold to trade between USD1000-1200/oz.

Industrial metals to weaken, with specific exceptions. A lack of strong demand catalysts and considerable oversupply is likely to exert continued downward pressure on prices. We prefer consumption-linked metals (zinc, aluminium and nickel) to investment-focused metals (iron-ore and copper).

We remain negative on commodities, but pace of weakness likely to slow compared with 2015

We believe commodities are likely to underperform other major asset classes heading into 2016. 2015 was characterised by sharp weakness in prices accompanied by a rise in inventories, almost across the board. A narrowing demand supply-gap is likely to slow the pace of losses given the magnitude of decline thus far. We also see room for greater divergence, with oil potentially facing the greatest upside risks and industrial metals facing continued downside risks.

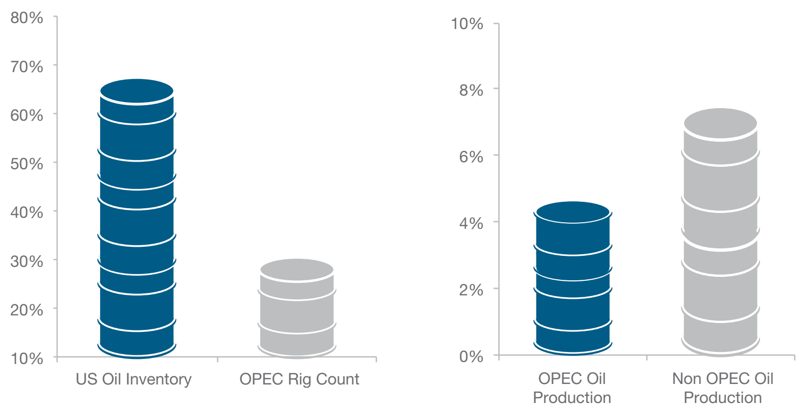
Energy: Oil rebalancing in progress, but short term downside risks still present

We expect supply and demand to be more evenly balanced by end 2016. However, the risk of a further sharp fall is greatest in the short term. We also believe any move up in Brent oil prices is unlikely to exceed USD65/bbl on average in any given quarter in 2016. Adjustments towards closing of the supply-demand gap seem to be in progress. While we expect additional production from Iran next year, we believe this can be largely offset by production cut-backs elsewhere. Most of the cut-backs are to come from the OECD (primarily the US) where, because of inventories remaining near record levels, production appears to have already peaked and may continue to decline.

Views at a glance

Figure 27: Supply side indicators for crude oil point to a significant glut at present. This needs to ease before prices can recover

Current levels % above historical average levels (last 10 years)



Source: Bloomberg, Standard Chartered
* OPEC rig count refers to rigs actively drilling to explore, develop or produce oil and natural gas.

"We also see room for greater divergence, with oil potentially facing the greatest upside risks and industrial metals facing continued downside risks."

Nonetheless, we expect any medium term gains in oil prices to be capped for three reasons. First, we believe prices moving beyond about USD60-65 may unleash a significant increase in US shale production which may ultimately cause price gains to reverse. Second, we expect Saudi Arabia to maintain its current rate of production as it pursues its strategy of defending its market shares. Third, we believe geopolitical risks to supply are likely to remain contained for now with the conflict in Syria not directly impacting oil supply.

Elevated inventory levels globally are a key short-term risk. If production does not fall fast enough, there is a real risk of global storage capacity being exhausted. Under such a scenario, prices could drop sharply as a significant amount of oil is forced to appear on the market for immediate sale. However, even if this were to occur, we expect it would be very short-lived as it would likely accelerate the slowing of supply (via bankruptcies, mergers & acquisitions and a pronounced drop in capital expenditure).

On the demand side, we expect to see a slow, but positive, pace of growth next year given our outlook of generally lacklustre growth in Developed and Emerging Markets. Upside risks to this view include faster than expected growth in China and further acceleration of growth in developed countries.

Gold: Neither hot, nor cold

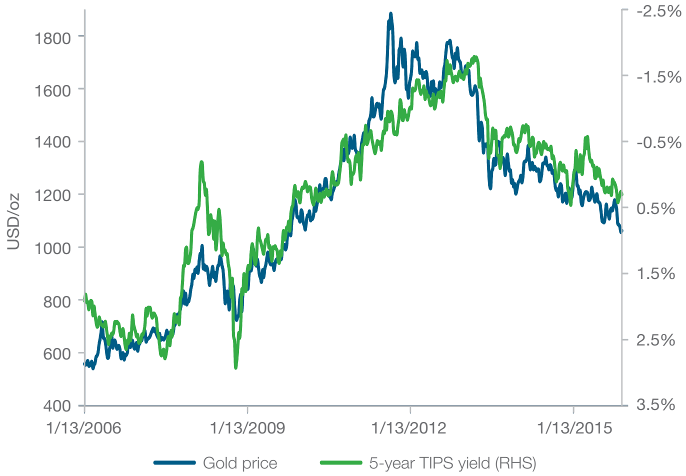
In our view, gold prices are likely to stay range-bound 2016. We expect gold to trade in the USD1000-1200/oz range in Q1 2016. Both financial and traditional supply-demand factors support this view.

As a financial asset, we believe gold is largely driven by inflation, interest rate expectations and the USD. The adjacent chart (Figure 29) shows the strong relationship between gold and real interest rate expectations (i.e. interest rates, net of inflation). Gold has moved lower since 2012 as both inflation and interest rates have fallen globally. However, in 2016, we believe real interest rates will begin stabilising in major economies following a creep higher in headline inflation rates (amid statistical effects and an uptick in oil prices) and generally low interest rates globally. Our outlook for increasingly modest and selective USD strength means this is unlikely to be a major headwind either. Both these factors are incrementally supportive for gold.

From a traditional supply-demand perspective, trends are beginning to turn more gold-supportive. Recent data from the World Gold Council (WGC) highlights a pick-up in gold purchases driven by both jewellery and investment demand as compared to last year. In addition to this, central banks have also increased gold purchases. On the supply side, though, total supply has increased marginally driven by a pick-up in mine production. While these trends suggest a mild improvement in the outlook for gold, we caution that it may still be early to expect a meaningful rebound in gold.

Figure 28: Gold prices have followed 5-years TIPS yields (a proxy for real interest rate expectations) very closely in recent times

We expect a stabilisation in real-interest rates in 2016 to be supportive for gold



Source: Bloomberg, Standard Chartered

A key risk to our view on gold in 2016 is a continued fall in global inflation rates or a greater-than-expected increase in interest rates in the US.

Industrial Metals: Weaker overall, but with differentiation

We expect further weakness in base metals as a whole given a largely oversupplied market coupled with a still-tepid demand environment. However, we believe some basis for differentiation in this space has begun to emerge. Commodities linked to consumption are likely to outperform those linked to fixed investments. We classify zinc, aluminium and nickel as consumption commodities, and expect them to outperform iron-ore and copper, which we classify as investment commodities. This view is supported by both our view on economic rebalancing in China (a continued shift from investment to consumption) and evidence suggesting production facilities for investment commodities are more expensive to shut down, likely delaying necessary supply reductions.

Alternative Strategies
Valuable late in the cycle

| Manpreet Gill |

Key themes

We expect Alternative Strategies to deliver positive absolute returns in 2016 on the back of the risk of rising volatility, equity market dispersion, trending markets and policy divergence.

Equity long/short strategies likely to outperform within alternative strategies. Valuation dispersion and rising equity market volatility are key drivers.

Event-driven strategies to outperform within alternative strategies. Large and growing opportunity set and wider arbitrage spreads are key drivers, but rising market volatility is a risk.

Macro strategies to benefit from further policy and economic cycle divergence. Europe and the US continue to be the most divergent, but other candidates may emerge in 2016.

Overview

Dispersion, trending markets and divergence are three themes that support the case for adding exposure to alternative strategies. Rising valuation dispersion, particularly across equity market sectors or during merger & acquisition (M&A) activity, offers opportunities for equity-focussed strategies to benefit from trading one sector versus the other. Continued policy divergence between the Fed and the ECB (and possibly select Emerging Markets, should they begin cutting rates) offers macro strategies, in particular, room to do well.

Alternative strategies also offer one good way to manage uncertainty around the length of the economic cycle. One of the lessons from history and our analysis of the economic cycle is that it is very difficult to time the precise end (and, therefore, the precise top in markets). Defensive long-only strategies can help cushion the fall, but negative total returns are hardly compelling. Trend-following strategies and discretionary macro offer the ability to profit from both up-trending and down-trending markets and make a much more compelling case, particularly as a hedge.

Preferred strategies

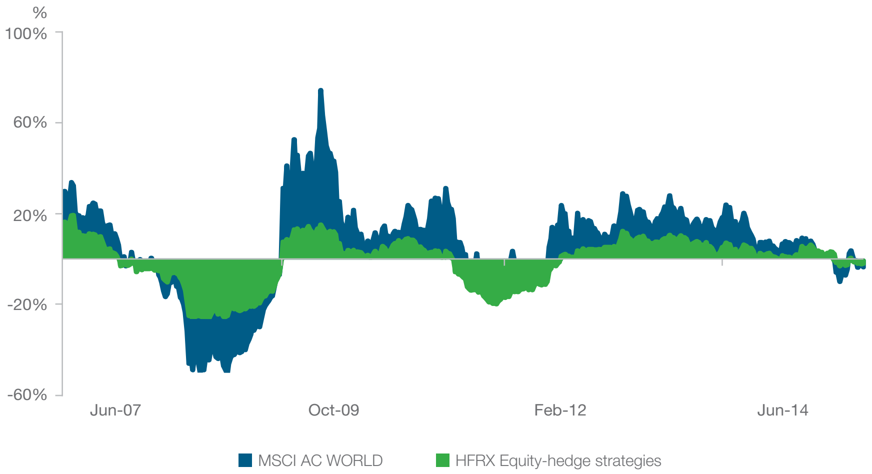
Equity long/short sub-strategies are an attractive way of gaining equity market exposure amid bottoming volatility. This sub-strategy brings together exposure to our most preferred asset class (equities), exposure to equity market dispersion through its ability to go long and short, and reduced volatility relative to long-only equity holdings. While long/short strategies underperform during equity bull markets, they outperform during market downturns. We believe this characteristic is attractive in a year where we expect moderate equity market gains, but in an environment where volatility may rise (Figure 29).

Macro strategies to benefit from extended divergence while trend-following (CTA) strategies stand to gain from longer-lasting trends. Extended policy divergence between the US and Euro area and the possibility of new sources of divergence (eg. falling rates in Emerging Markets) are positive for macro strategies.

Record M&A activity points to a growing opportunity set for event-driven strategies. We believe the long-term relationship between M&A volume and event-driven strategy performance remains intact despite a recent breakdown. Our positive view on M&A activity in 2016 and wider arbitrage spreads across individual M&A deals support a positive case for the asset class. We acknowledge broad market volatility is a key risk, but the long-term relationship with M&A volume suggests any such breakdown is likely to be temporary.

Figure 29: Equity long/short strategies offer exposure to equities, but with lower volatility

HFRX equity long/short index vs. MSCI AC World



Source: Bloomberg, Standard Chartered

Multi-asset income
Finding balance between yield and volatility

| Aditya Monappa, CFA | Arun Kelshiker, CFA | Audrey Goh, CFA |

Key views

Multi-income remains a valid strategy for 2016. Despite divergent policy, ample liquidity and low bond yields call for a diversified approach to income investing.

Yield target of 4-5% is achievable. A cross asset approach can help investors achieve their objectives as yields on various income assets remain comparable to last year.

Higher volatility environment means risk management is crucial. We have modestly reduced our allocation to equities, given the risk of more frequent pullbacks, and increased our allocation to a diversified basket of fixed income. Given low yields in fixed income, currency hedging can be important in protecting returns.

Key drivers supportive of multi-income in 2016

While a multi-income approach has evolved over the past few years, the underpinnings of the strategy have largely remained the same – diversified sources of income and a cross-over from fixed income into equity and non-core income. Looking ahead to 2016, a key question is whether such a strategy remains valid?

At a headline level, the answer is yes. We foresee an environment of loose monetary policy and low bond yields. While the US Federal Reserve might begin its rate hiking cycle, we expect a dovish tone around messaging about the path of future interest rates. Central banks in Europe and Japan are also expected to remain highly accommodative. The conclusion for the investor remains – traditional fixed income (yet again) might not be sufficient to completely satisfy their yield objective.

The next logical question is whether an attractive yield is available in areas we have previously highlighted – high dividend equity and non-core income. A comparison between end-2014 and end-2015 (Figure 30) of income on offer across various asset classes indicates not much has changed from one year to the next. With a few minor changes in our "Aspiration"** bucket, the average level of yield is comparable.

Figure 30: Target yield remains achievable in 2016

Yield to maturity/dividend yield (%)

Preservation Yield
20% of portfolio

Maintenance Yield
60% of portfolio
4-5% target yield

Aspirational Yield
20% of portfolio

Asset	End 2014	End 2015
Short Mat (1-5 years)	0.70	0.78
Medium Mat (5-7 years)	1.32	1.34
DM IG Corporates	2.37	2.74
Long Mat (20+ years)	2.92	2.96
US Dividend Equity	3.12	3.20
REITs (Europe)	3.28	3.47
Asia IG Corporates	3.92	3.96
CNY bonds	4.80	3.97
REITs (US)	3.66	4.08
Covered Call Strategy	4.24	4.11
REITs (Asia)	3.88	4.22
Convertibles	3.11	4.33
Pan-EU HY	4.16	4.48
EM HC IG	4.32	4.81
Asia Divi Equity	3.88	5.10
Europe Dividend Equity	5.04	5.42
Preferred Equity	5.95	5.72
Leveraged Loans	4.53	5.92
Asia HY Corporates	7.14	7.37
DM High Yield	6.09	7.78
INR bonds	8.55	8.12
EM High Yield	7.68	8.24
US HY	6.12	8.36

Source: Bloomberg, Standard Chartered
*For indices used, refer to end note at the conclusion of this section

** We look to generate our target yield by exploring three distinct buckets, which include the following:
· Preservation Yield – Accepts a lower yield but provides downside protection during adverse market events
· Maintenance Yield – Forms the bulk of the yield opportunity. A good balance of yield and risk
· Aspirational Yield – An attempt to enhance overall yield while taking on higher, but measured risks

With two factors (policy environment and yield) firmly supportive of multi-income, we explore the last remaining consideration – asset volatility. As mentioned previously in this publication, our expectation is for volatility to rise as we move through 2016. In general, volatility can be viewed as variability of return over time. Some investors focus more on the downside risk, for which maximum drawdown is a metric that is often quoted. Our view is both the level of volatility and frequency of any pullbacks could increase as we move through the year. Putting aside idiosyncratic drivers (geopolitics) of risk, our conjecture about being in the late stages of the economic cycle plays an important role in market volatility we observe.

Risk management our priority for 2016

While maintaining our approach of diversified yield generators across fixed income, high dividend equity and non-core income, we adjust our allocation to each area as a risk management exercise.

In the past, we have looked at two variables, income potential and appreciation potential, as criteria to select assets within the multi-income allocation. In light of our view on volatility, we feel it's prudent to add a third variable into the mix – drawdown potential.

We illustrate our updated framework in a traffic light system (Figure 31). An example might help clarify how we use this framework. An asset class with high (green) income, low capital growth (yellow) and large (red) drawdown potential would not be the first choice for a large allocation. Instead, we might prefer an asset class with moderate income and capital growth potential and low drawdown potential.

Figure 32 helps us to quantify the relative drawdown we see across various income asset classes.

Under this framework, we choose to reduce our equity allocation given the moderate income potential and larger risk of drawdown. Within the equity allocation, Europe (fx-hedged) still retains the largest weighting given positive prospects from a yield and capital growth potential.

We raise our allocation in Fixed Income as we grow more comfortable with the risk-reward equation for this asset class. While still keenly aware of asset classes within fixed income that are most sensitive to an increase in US interest rates, we believe a diversified approach to fixed income with larger allocations to assets offering attractive yield with manageable risk characteristics will serve us well in 2016.

As detailed in the fixed income section (page 54), key changes include the addition of Treasury Inflation-Protected Securities (TIPS) and a switch from Developed Market (DM) High Yield into US High Yield.

Figure 31: A three-pronged approach to assessing multi-income assets

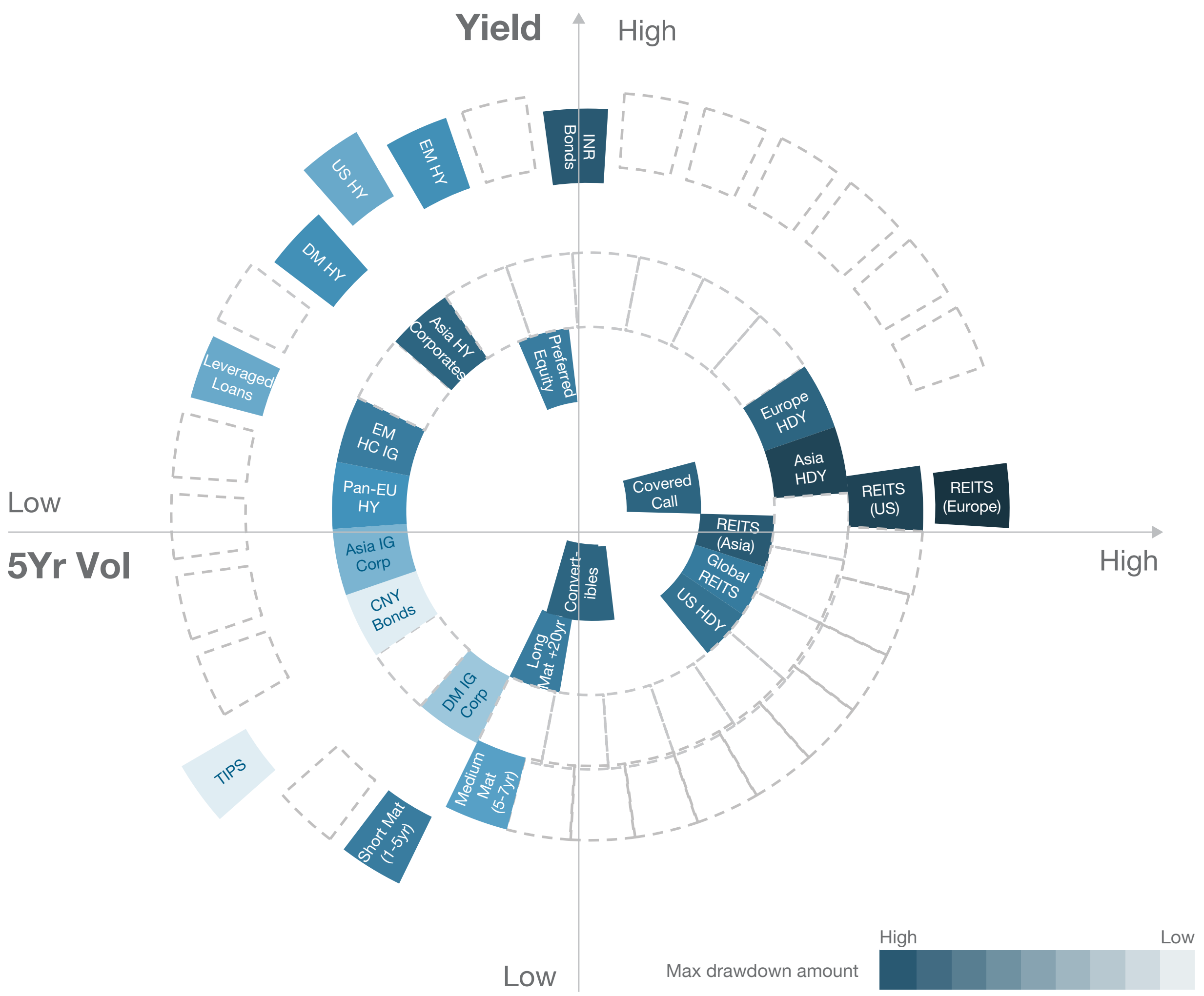
Income, Capital Growth and Drawdown Potential for multi-income assets

Asset Allocation (Multi-Asset Income)	Income Potential	Capital Growth	Drawdown Potential	Comments
Fixed income				Portfolio anchor; source of yield; some interesting areas but not without risks
Equity income				Key source of income and upside from capital growth
Non-core income				Useful diversifier for income and growth

Source: Standard Chartered
*For indices used, refer to end note at the conclusion of this section

Figure 32: The spectrum of yield and risk for multi-income assets

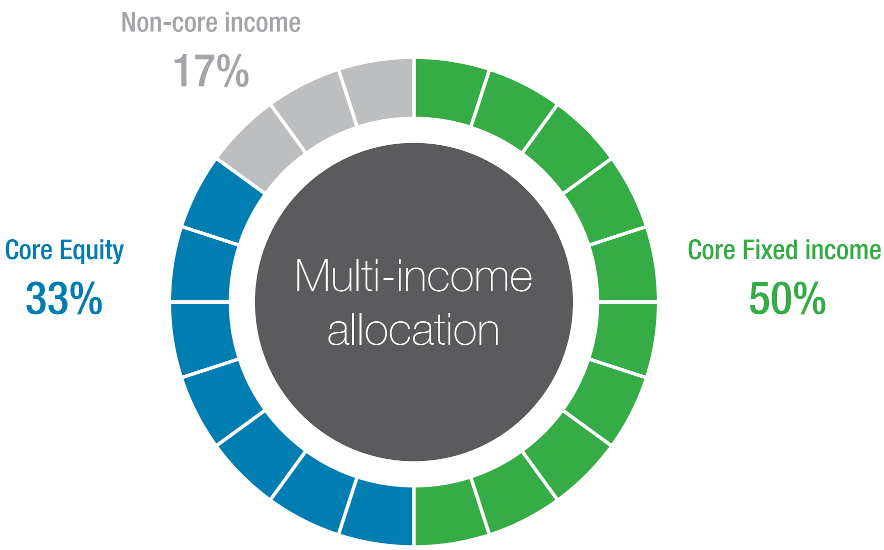
Current yield, volatility, maximum drawdown for income assets



Source: Bloomberg, Standard Chartered
*For indices used, refer to end note at the conclusion of this section

"Larger allocations to assets offering attractive yield with manageable risk characteristics should allow income investors to generate a sustainable yield in 2016"

Figure 33: 2016 multi-income asset allocation (USD)



Source: Standard Chartered

We maintain our weight in non-core income with a tilt towards preferred equity and a covered call strategy. Preferred equity offers an attractive yield without an overly concerning risk of drawdown. The covered call strategy (see section on Non-core income) is also a valuable addition for volatility management.

We believe these changes allow us to find the right balance between providing income investors a sustainable yield and managing the volatility and drawdown profile of the allocation. In the following sections, we explore the broad building blocks of core fixed income, core equity and non-core income in detail.

Core Fixed Income (50%)

We continue to advocate a diversified basket of fixed income within the multi-income allocation. Our conviction around the range of opportunities is similar to 2015. This relatively static view is based on expectation of a relatively unchanged interest rate environment going forward. Despite the potential of a Fed rate hike, our view is the rate hiking cycle will be gradual.

As mentioned previously, we have increased our overall exposure to fixed income as a risk management exercise. We highlight below a few of the opportunities to deploy this new allocation.

A 'TIP' about our fixed income allocation

We add a position to Treasury Inflation-Protected Securities (TIPS) which we believe are undervalued at this point in time. While the available yield isn't attractive (1.3%), we are looking at it purely as a substitute for our sovereign bond position. We believe it presents a better risk-adjusted return compared to our allocation in G3 Sovereign bonds. While duration remains a concern, the impact of rising rates would be similar to what we might experience in our G3 Sovereign position. An additional risk is deflation which could cause the principle amount of these securities to drop below par. However, our central scenario calls for stable to improving oil prices resulting in an increase in headline inflation.

Switch to US High Yield for better risk-adjusted returns

A few months ago, we highlighted the prospects for US High Yield in our Global Market Outlook publication. Within this asset class, much of the stress remains concentrated in the energy sector, where markets are pricing in a very high default rate of around 10%, according to some estimates. While defaults are rising, Fitch Ratings notes that magnitudes of the scale of 5% for the overall asset class appear more likely. This suggests wide spreads (both within the energy sector and elsewhere) may not be fully justified. We continue to believe cheaper valuations and a tailwind from the strong US economy mean that US High Yield offers an attractive risk/reward trade-off. We switch from DM High Yield to US High Yield and also use the rebalancing from equity to increase our weight in this asset class.

Currency hedging can be important in protecting return

Given the portfolio base currency is USD, being aware of currency exposure and hedging where appropriate is crucial to protecting return in fixed income. In an asset class where average yields are already low, protecting against currency volatility is important. Two areas that stand out in this regard (low yield, currency exposure) are G3 Sovereign bonds and DM Investment Grade Corporate bonds which include allocations to EUR and JPY. We continue to hedge our currency exposure in both these asset classes. While we have a more nuanced view on hedging equity exposure (see equity section of this publication), we continue to hedge our fixed income allocation as it represents a nominal stream of cash flows in the local currency. This stance on currency hedging could evolve as we move through the year and get a better sense about the direction of central bank monetary policy.

Figure 34: A three-pronged approach to assessing income assets – Fixed Income

Income, Capital Growth and Drawdown Potential for fixed income assets

Asset Allocation (Multi-Asset Income)	Yield	Income Potential	Capital Growth	Drawdown Potential	Comments
Fixed income		🟡	🟡	🟡	**Portfolio anchor; source of yield; some interesting areas but not without risks**
Corporate - HY	7.4	🟢	🟢	🟡	Yield premiums discount rising defaults; attractive yield; biggest obstacles fund flows, Fed, oil
EM Debt	6.0	🟢	🟡	🟡	Need to be selective, given diverse risk/reward in IG, HY bonds
EM - IG	4.8	🟢	🟡	🟡	Attractive yield premium for quality credit; EM IG sovereign bond spreads wide
EM - HY	8.1	🟢	🟡	🟡	Higher yield vs. EM IG, but many idiosyncratic stories; lower risk/reward
Asia local currency bonds	4.1	🟡	🔴	🔴	Broad risk/reward unattractive; yields are too low for the FX tail risks
CNY bonds	4.0	🟡	🟡	🟢	Room for further rate cuts; however, yields already quite low and insufficient given CNY depreciation risks
INR bonds	8.1	🟢	🟡	🔴	Structural story playing out; high inflation-adjusted yields; credible central bank, reforms; foreign demand
Investment Grade	1.6	🔴	🔴	🟢	Portfolio anchor, safe yield, some exciting areas
Corporate - DM IG	2.7	🟡	🟡	🟢	Yield premiums have widened, some value appearing; long-term US bonds look appealing if Fed hiking cycle muted
Corporate - Asia IG	4.0	🟡	🟡	🟢	Cautiously positive. Fairly-valued, stable quality, but Chinese issuers face economic growth headwinds
TIPS	1.3	🔴	🔴	🟢	Undervalued and a good alternative to nominal sovereign bonds; impact of rate rise similar to G3 sov.
Sovereign	1.6	🔴	🔴	🟡	Momentum, QE offer strong anchors for EU, but little value; long US Treasury; AU, NZ, SP well supported

Source: Standard Chartered
*For indices used, refer to end note at the conclusion of this section

Review of multi-income allocation 2015

Despite meeting its yield objective in 2015, our multi-income allocation delivered a meagre total return of 1.3% reflecting a challenging year for asset markets. The picture looks better (on a relative basis) when compared to the 0.1% total return for global equity over the same period. Within multi-income, key contributors to return were non-core income and high dividend equity.

High dividend equity

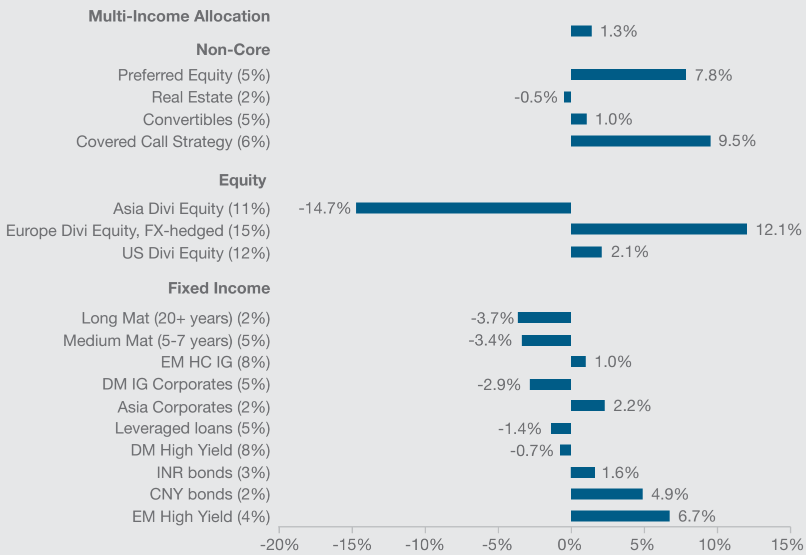
High dividend equity was driven by stellar performance in Europe. At the end of last year, we chose to hedge our exposure in light of expected currency weakness. This change has paid off with the hedged European exposure being the clear outperformer within the equity bucket. It is also in stark contrast to 2014 where European dividend equity (un-hedged) was the laggard among the three regions. US dividend equity also delivered positive returns albeit of a different magnitude (2.1% vs. 12.1%) when compared to Europe. Asia ex-Japan represented our lowest conviction at the start of the year and was the only component to deliver negative total return in the equity basket.

Non-core income

Non-core income continues to validate its role within the multi-income allocation providing positive absolute returns while helping to lower the overall risk of the portfolio. Preferred equity delivered another year of strong performance. The covered call strategy, which was added in 2015, was the standout performer within the non-core segment. Real estate had a good start to the year, but rising expectations of a rate hike tempered returns in the latter half.

Fixed income

Fixed income has been the clear laggard in terms of absolute performance in 2015. Our overall fixed income bucket returned -0.5% since inception of the strategy. However, changes to the strategy compared to prior years helped ensure that returns were close to flat (versus negative for aggregate bond benchmarks) The inclusion of INR bonds, a top pick in the local currency space, has been positive for the allocation. Additionally, the move in G3 sovereign duration from short (1-5 years) to medium (5-7 years) maturity has also added value over the year.



Source: Bloomberg, Standard Chartered Bank

* Income basket is weighted performance of global high-dividend-yielding equities,fixed income and non-core income as described in the 2015 Outlook: A Year to be W.I.D.E.N. and revised in the Global Market Outlook, 11 June 2015.

* For indices used, refer to end note at the conclusion of this section

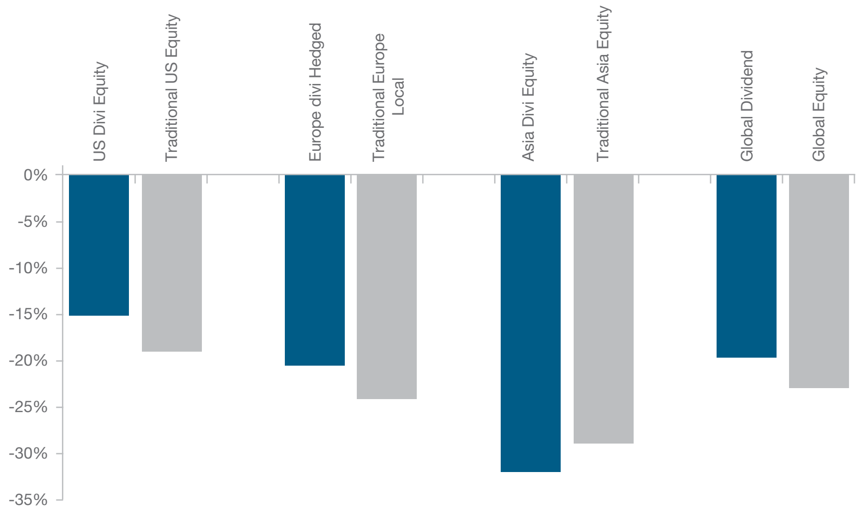
Core equity (33%)

We remain comfortable with high dividend yielding equities within multi-income

Dividend equity strategies offer investors opportunities for equity-like capital growth, supported by an income stream of dividends, which can either be collected or reinvested. Historically, dividend equities tend to have lower drawdowns during market corrections compared with traditional equities. This is especially the case in the US and Europe (versus Asia), where high dividend yielding equities are tilted towards the more defensive sectors. Given our focus on risk management, we continue to include dividend yielding equities with multi-income, with a greater allocation towards the US and Europe.

Figure 35: Dividend equities generally have lower drawdowns vs traditional equities

Max drawdowns of traditional vs. high dividend equity indices across Global, US, European and Asian equity markets (May 2010 - December 2015)



Source: Bloomberg, Standard Chartered
*For indices used, refer to end note at the conclusion of this section

Figure 36: A three-pronged approach to assessing income assets – Equity Income

Income, Capital Growth and Drawdown Potential for equity income assets

Asset Allocation (Multi-Asset Income)	Yield	Income Potential	Capital Growth	Drawdown Potential	Comments
Equity Income	**4.0**	Yellow	Green	Red	**Key source of income and upside from capital growth**
North America	3.3	Yellow	Yellow	Yellow	Fair valuations; subdued sales/profit growth mean below average returns; some sectors attractive
Europe Ex UK	5.4	Green	Green	Yellow	Attractive valuation; ECB and FX support; good momentum; challenges from exposure to global growth; consensus trade
Asia Ex Japan	4.9	Green	Yellow	Red	Good payouts; selectively attractive valuations, but challenges from global growth, earnings, Fed and leverage

Source: Standard Chartered
*For indices used, refer to end note at the conclusion of this section

Looking globally, European high dividend equities are attractive

We continue to prefer Europe as compared with the US and Asia. European dividend yield strategies are supported by current global interest rates policies, with the US about to raise interest rates and the European Central Bank continuing to ease policy into 2016. The past two episodes of monetary policy divergence between the US and Europe in 1999-2000 and 2004-2006, have seen European high dividend yielding equities outperforming the US. Investors might be inclined to actively invest into dividend yield strategies, even if potentially riskier, as a way to generate income in the face of a low returning environment within bonds in Europe.

In Europe, high yielding equities are tilted towards financials and defensive sectors, including healthcare, utilities and telecommunications companies. In the US, there is also a tilt towards defensive sectors, but there is a dramatically lower weight in financials which is taken up largely by the technology sector. In Asia ex-Japan, financials represent close to half the weight in the region, with Chinese financials as major contributors. While we see a pick-up in borrowing and stronger bank balance sheets in Europe as a positive, in Asia, concerns over growth and borrowing risks of Chinese financials may negatively impact their performance.

On valuations, Asia ex-Japan ranks the cheapest on price-to-earnings ratios (P/E) and price-to-book ratios (P/B), followed by Europe with the US as the most expensively valued dividend yield market. The current picture in terms of dividend yield sees Europe offering above 5%, Asia ex-Japan just under 5% and the US around 3.5%. In the US, energy equities are now the second highest yielding sector, with a risk of further dividend cuts if low oil prices are sustained In contrast, European companies have the potential for increased profitability, aided by a weaker Euro and earnings recovery from cyclically low levels. The cheap valuation of Asia high dividend equities largely stems from its significant weighting to China and Taiwan.

We believe European high dividend equities currently offer the most attractive opportunity and are best placed, amongst the three regions, to benefit from global macro developments. We continue to include all three regions in our multi-income portfolio so as to keep a healthy diversification.

Investing in high dividend growers

A key emerging theme is to invest in "High Dividend Growers", company managements that actively focus on growing their dividends. These stocks generally have cheaper valuations, less borrowing, more cash on their balance sheets and greater room to raise their dividends. Dividend growers tend to have lower starting yields but their capital appreciation can support a portfolio's capital growth.

Non-core income (17%)

Risk diversification in income generation is key

Non-core income assets such as preferred equities, global REITs, convertibles and covered calls provide valuable income while delivering excellent diversification benefits to equities and bonds. Our respective allocations are driven primarily by the current trade-off between income generation and price volatility and we have opportunistically positioned ourselves towards preferred equity over global REITs and kept our respective allocations on covered calls and convertibles.

A covered call strategy continues to make sense within a multi-income portfolio. Given an expectation of higher volatility in markets and potentially more frequent drawdowns, this strategy will provide income while helping to buffer some of the volatility. It's potentially most effective for a market like the US where we expect positive, but range-bound returns.

Preferred equity over REITs

We favour preferred equity over global REITs as we believe sensitivity to interest rates may impact REIT performance, given the expected rate hiking cycle in the US. In contrast, preferred equity carries a large tilt towards global financials and we believe rising interest rates will benefit banks through their lending activities and ultimately lead to increased profitability.

Convertibles appropriate when rates rise on the back of economic growth

Convertible bonds are fixed income assets which generally pay lower coupons than similar non-convertible bonds. However, they compensate an investor by providing an embedded equity option to convert the bond into company shares. During periods of rising interest rates, studies have shown equity performance is a primary driver of convertible returns. The caveat is that rates should be rising under the right set of conditions i.e. improving economic growth. Given our base scenario is for the US economy to sustain its expansion (with around 2.5% growth in 2016), we believe we have the "right set of conditions". While rising rates might affect the bond component of convertibles, we believe the equity gains should more than offset the fixed income related loss.

Figure 37: A three-pronged approach to assessing income assets – Non-core Income

Income, Capital Growth and Drawdown Potential for non-core income assets

Asset Allocation (Multi-Asset Income)	Yield	Income Potential	Capital Growth	Drawdown Potential	Comments
Non-core income	**4.3**				**Useful diversifier for income and growth**
Preferred	5.8				Positive on financials; benefits from higher rates; high sensitivity to investor flows
Convertibles	4.0				Moderate economic expansion + gradual pace of rate hikes should be good for converts. Risk: policy mistake
Property	3.1				Yield diversifier; stable real estate market; at risk from higher rates and outflows. Asymmetric risk profile
Covered Calls	4.1				Useful income enhancer assuming limited equity upside; volatility has increased somewhat

Source: Bloomberg, Standard Chartered
*For indices used, refer to end note at the conclusion of this section

Figure 38: Suggested weights for 2016 multi-income allocation (USD)

All figures are in percentages

Asset class	Sub-Asset Class	Weight
Fixed Income	EM High Yield	4.0%
	CNY Bonds	2.0%
	INR Bonds	3.0%
	US High Yield	10.0%
	Leveraged Loans	5.0%
	Asia Corporates	5.0%
	DM IG Corporates (hedged)	5.0%
	EM HC IG	8.0%
	G3 Sovereigns	8.0%
	– TIPS	3.0%
	– Mid Mat (5-7 Years) (hedged)	3.0%
	– Long Mat (20+ Years)	2.0%
Sub-total		**50.0%**
Equity	US Dividend Equity	10.0%
	Europe Dividend Equity (hedged)	15.0%
	Asia Dividend Equity	8.0%
Sub-total		**33.0%**
Non-core Income	Covered Call Strategy	5.0%
	Convertibles	4.0%
	Real Estate	2.0%
	Preferred Equity	6.0%
Sub-total		**17.0%**
Total	**Multi-Income Portfolio**	**100%**

Source: Bloomberg, Standard Chartered
For indices used, refer to end note at the conclusion on this section.

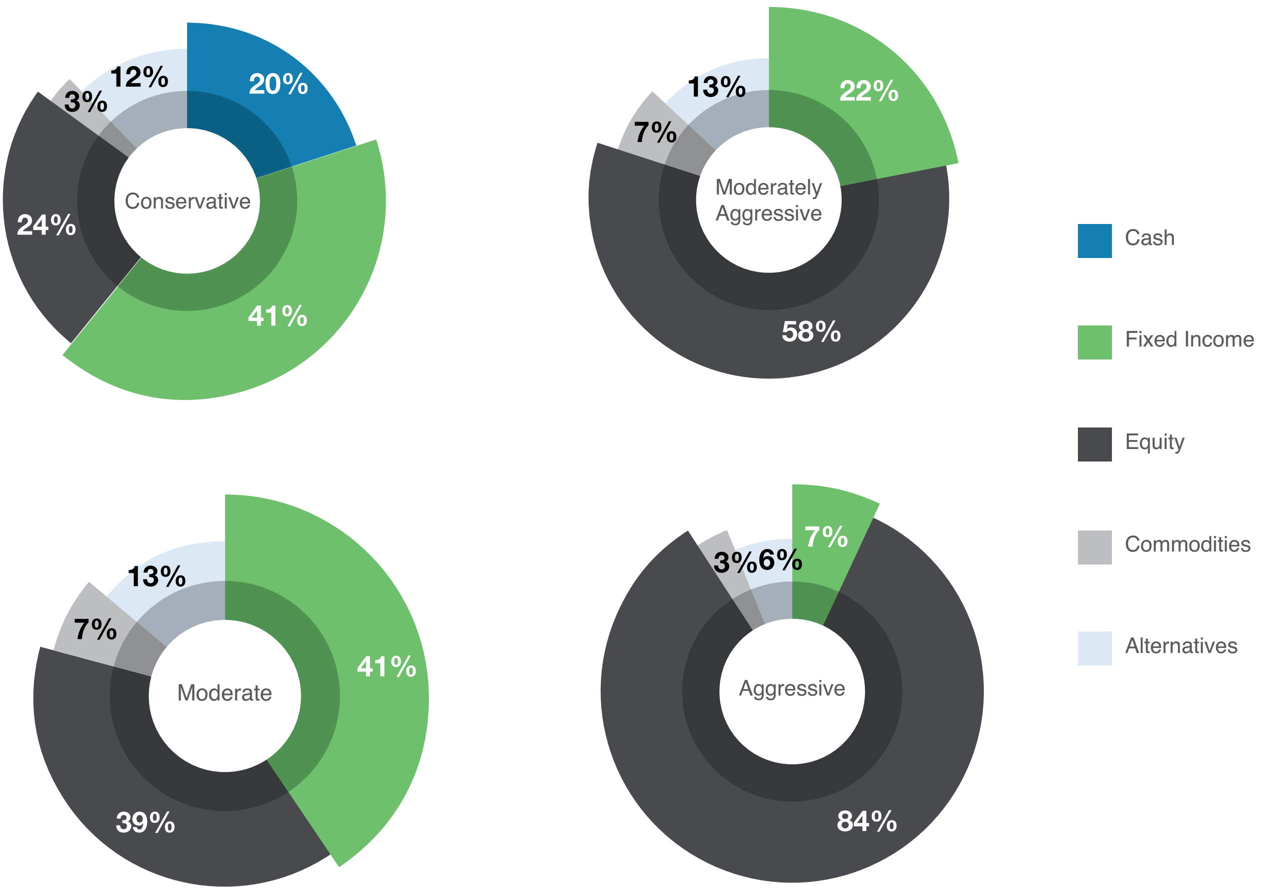
Conclusion

Over the last few years, a global multi-income approach has delivered the income objective with a moderate level of portfolio risk. Looking ahead to 2016, a conducive monetary policy environment coupled with low government bond yields continues to support the case for global income. However, in addition to diversification, comprehensive risk management (including currency and drawdown risk) is now a crucial element for a successful income strategy.

A question often raised is whether a regional income strategy (European or Asian multi-income) would be a better choice. Achieving attractive income in an ultra low-yield environment might be challenging for European multi-income. Asian multi-income could provide the yield, but at a higher level of risk. Both regional strategies would see a limited range of investments in non-core income where US focused assets play a key role. Against this backdrop, a global multi-income approach with appropriate risk management should deliver a sustainable yield for income-oriented investors.

End note:
Indices are CRISIL Composite Bond Fund Dollar , Barclays US Corporate High Yield TR , J.P. Morgan EMBI Global Diversified High Yield, Barclays Global High Yield TR, JACI Non-Investment Grade TR, S&P Leveraged Loan TR, MSCI AC Europe High Dividend Yield, SPDR Wells Fargo Preferred Stock ETF, MSCI EM Asia High Dividend Yield, J.P. Morgan EMBI Global Diversified Investment Grade, Barclays Pan-European High Yield, FTSE EPRA/NAREIT Asia REITs TR, Chicago Board Options Exchange S&P 500 BuyWrite, FTSE EPRA/NAREIT Developoed North America REITs TR, S&P China Corporate Bond,JACI Investment Grade TR ,FTSE EPRA/NAREIT Europe REITs TR, MSCI North America High Dividend Yield, Citi Non-MBS WorldBIG 20+ Yr, Citi WorldBIG Corporate, BC US Conv 500MM Face Liquidity Constraint TR, Citi Non-MBS WorldBIG 5-7 Yr, Citi Non-MBS WorldBIG 1-5 Yr, Barclays US Treasury TIPS 0-5 Yr TR, MSCI EMU High Dividend Yield Net Local, MSCI ACWI High Dividend Yield Net TR, MSCI Daily TR Net USA, MSCI Daily Net TR Europe Euro, MSCI AC Daily TR Net Asia Ex Japan, MSCI AC World Daily TR Net

Asset allocation summary



	View vs. SAA	Conservative	Moderate	Moderately Aggressive	Aggressive
Cash	Underweight	20	0	0	0
Fixed Income	Neutral	41	41	22	7
Equity	Overweight	24	39	58	84
Commodities	Underweight	3	7	7	3
Alternative Strategies	Overweight	12	13	13	6

Asset Class	Region	View vs. SAA	Conservative	Moderate	Moderately Aggressive	Aggressive
Cash & Cash Equivalents	USD Cash	Underweight	20	0	0	0
Investment Grade	IG Developed World	Underweight	28	19	2	2
	IG Emerging World	Neutral	6	11	5	0
High Yield	HY Developed World	Overweight	3	7	7	3
	HY Emerging World	Neutral	4	4	8	2
Developed Market Equity	North America	Neutral	8	11	17	24
	Europe (FX-hedged)	Overweight	7	9	13	20
	UK	Underweight	0	2	2	3
	Japan	Overweight	2	3	6	7
Emerging Market Equity	Asia ex-Japan	Neutral	7	12	17	26
	Other EM	Underweight	0	2	3	4
Commodities	Commodities	Underweight	3	7	7	3
Alternative Strategies	Alternative Strategies	Overweight	12	13	13	6

All figures in percentages. For illustrative purpose only. Please refer to the Important Information section at the end of this document for more details.
Source: Standard Chartered

Consensus forecasts 2016

	Consensus Forecasts			
Real GDP (%, y/y)	**2015E**	**Our Bias**	**2016E**	**Our Bias**
US	2.5	→	2.5	→
Euro area	1.5	→	1.7	↗
Japan	0.6	→	1.1	→
China	6.9	→	6.5	→

Inflation (%, y/y)	2015E	Our Bias	2016E	Our Bias
US	0.2	→	1.8	↘
Euro area	0.1	→	1.1	→
Japan	0.8	→	0.9	→
China	1.5	→	2	↘

Policy rate (%)	1H 2016	Our Bias	2H 2016	Our Bias
US	0.85	→	1.25	↘
Euro area	0.05	→	0.05	↘
Japan	0.1	→	0.1	→
China	4.05	→	4.05	↘

FX	1H 2016	Our Bias	2H 2016	Our Bias
EUR/USD	1.05	↘	1.05	↘
GBP/USD	1.51	→	1.52	↗
USD/CHF	1.1	→	1.11	→
AUD/USD	0.68	→	0.69	→
NZD/USD	0.62	→	0.62	→
USD/CAD	1.35	→	1.34	↘
USD/JPY	125	→	126	→
USD/CNY	6.5	→	6.6	→
USD/SGD	1.42	↗	1.42	→
USD/KRW	1,210	↗	1,216	→
USD/TWD	33.5	↗	33.6	→
USD/INR	67	→	67	↘
USD/IDR	14,475	→	14,750	↘
USD/MYR	4.25	↗	4.3	↘
USD/THB	37	→	37	→
USD/PHP	47.8	↗	48.1	↗

Source: Bloomberg, Standard Chartered

Legend: → No strong bias | ↗ Moderately higher bias | ↘ Moderately lower bias

2016 key events

Dec
- **16** Fed meeting
- **17-18** EU Leaders' Summit
- **20** Spain general election
- **31** ASEAN Economic Community launch

Jan
- **16** Taiwan general election
- **21** ECB meeting
- **24** Portugal Presidential election
- **27** Fed meeting
- **X** Review of EU sanctions on Russia

Feb
- **X** Indian federal government budget

Mar
- **10** ECB meeting
- **16** Fed meeting

Apr
- **15-17** IMF/World Bank spring meetings
- **21** ECB meeting
- **27** Fed meeting

May
- **09** Philippine Presidential/Parliamentary Elections

Jun
- **02** ECB meeting
- **15** Fed meeting
- **X** Italian constitutional referendum

Jul
- **18-21** US Republican Party National Convention
- **21** ECB meeting
- **25-28** US Democratic Party National Convention
- **27** Fed meeting

Sep
- **04-05** G20 Summit in Hangzhou, China
- **08** ECB meeting
- **21** Fed meeting

Oct
- **20** ECB meeting

Nov
- **02** Fed meeting
- **08** US Presidential elections
- **30** Australia Parliamentary elections

Dec
- **08** ECB meeting
- **14** Fed meeting

Legend:

- **X** – Date not confirmed
- **Fed** – US Federal Reserve
- **ECB** – European Central Bank

2015 in review

| Steve Brice |

Performance of key themes

Economy

At the beginning of 2015, we introduced the W.I.D.E.N. investment framework, suggesting investors should broaden their investment horizons. We highlighted an environment of modestly accelerating growth, benign inflation and still-stimulatory monetary policies to be supportive of returns for both global equities and a diversified allocation to income-generating assets. We also cautioned that returns will be accompanied by greater market volatility as the US Federal Reserve prepares to hike rates for the first time since 2006.

Looking back, some of our W.I.D.E.N. macro themes played out as expected, while others have proven less successful. As a result, returns on our three key investment themes have been a mixed bag. From a macro perspective, our W.I.D.E.N. themes were:

W . I . D . E . N.

World economy to keep expanding, led by an accelerating US. The global economy indeed continued to grow, with the World Bank expecting global nominal GDP growth to register 2.8% in 2015, up from 2.3% last year. However, Emerging Market economies were challenged by falling commodity prices on the back of a slowing China, while Europe and Japan have fared much better this year. In the US, a familiar pattern of Q1 weakness in the US economy repeated itself yet again which means growth this year is likely to eke out only a modest acceleration this year. European growth, on the other hand, accelerated faster than most expected, in line with our outlook. Japan also accelerated, but Emerging Markets disappointed, as China slowed further.

Inflation to remain low. We spent much of the year focused on the risks of deflation rather than inflation as the drop in oil prices weighed on producer and consumer prices. Central banks in the Developed Markets maintained accommodative policies, in a bid to reflate their economies, and inflation has proven benign throughout the year.

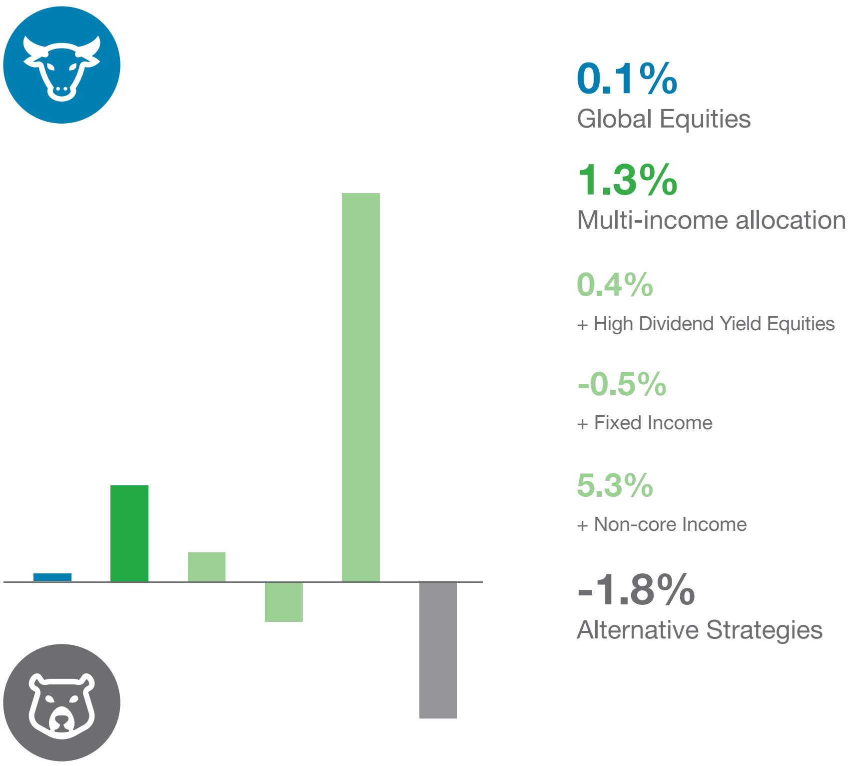
Divergent monetary policies to create multiple investment opportunities. Monetary policies indeed remained divergent with the market focused on when the Fed would tighten monetary policy, while the focus in many other G7 economies was whether or not there would be further policy easing. The USD continued to strengthen against other major currencies as US interest rates differentials widened against those of other major economies (especially Europe and Japan). Many of our investment themes benefited from this environment (see page 11).

End of US zero interest rates to create short-term volatility in many asset classes. We got the volatility over the summer months, but arguably it was because the Fed decided not to hike interest rates. Expectations remain that interest rates will increase before the end of the year, but these expectation have been delayed from June 2015.

Need for reform key to Emerging Market returns. Progress on reform within Emerging Markets has been slow and disappointing this year, as have their equity market and FX returns.

Figure 39: W.I.D.E.N. performance in 2015

Performance of the key themes from the 2015 Outlook*



Source: Bloomberg, Standard Chartered
*Returns from 12 December 2014 to 08 December 2015
*Income basket is as described in 'Outlook 2015: A Year to W.I.D.E.N..', Figure 53, and was then revised in the August issue of Global Market Outlook, entitled `Volatility likely to remain low for a while'.

W.I.D.E.N.

Our W.I.D.E.N. performance embedded three key bullish investment themes – Overweight global equities, diversified income and alternative strategies. While two of these themes have delivered positive returns, even these have been more meagre than we expected.

Global equities

+0.1%

Diversified multi-income allocation

+1.3%

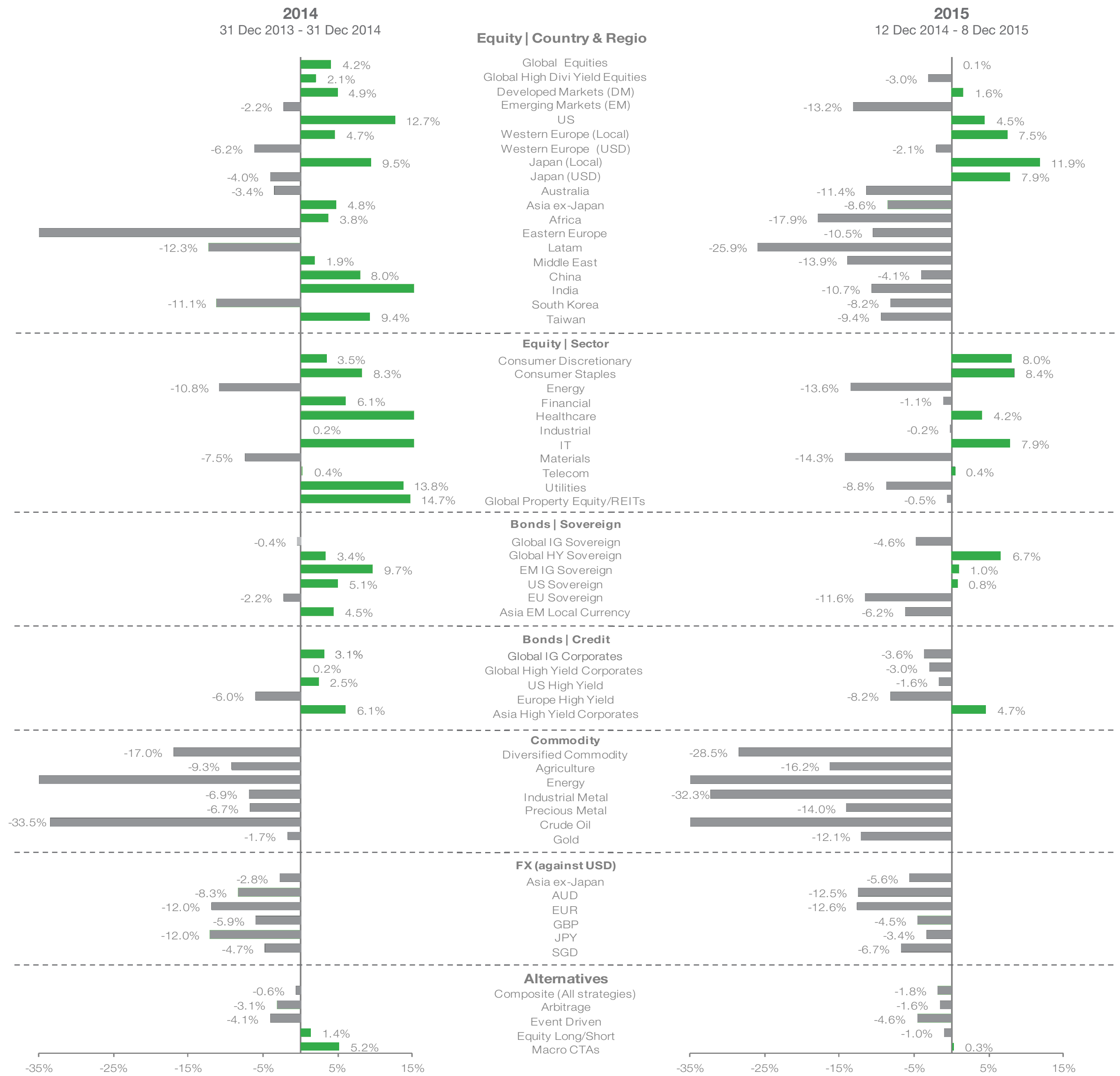
The income theme has delivered positive returns despite rising interest rate expectations casting doubt over the relevance of income generating assets. Non-core income led the performance.

Alternative Strategies

-1.8%

Our call for investors to broaden and diversify their allocation into alternative strategies resulted in outperformance relative to equities during the summer selloff, but failed to live up to our full-year expectations with three out of four favoured strategies witnessing a modest loss over the year.

Figure 40: Market Performance Summary*



Source: MSCI, JP Morgan, Barclays, Citigroup, Dow Jones, HFRX, FTSE, Bloomberg, Standard Chartered
*Performance in USD terms unless otherwise stated

Performance of our investment themes

Introduction

2015 was a challenging year for investors with most areas of equities, bonds, commodities and alternative strategies posting negative returns (Figure 40). It is in this context that we should look at the performance of our three key investment themes. Thankfully, we picked some of the areas that outperformed strongly (for example, Europe and Japan equities) and recommended an underweight allocation to asset classes that performed particularly poorly (eg. Emerging Market equities and commodities). Our outlook for broad-based US dollar strength also played out particularly well.

Bonds

At the headline level, we entered the year Underweight on Bonds, premised on our expectations of low or negative returns. Our call proved correct as Euro and Yen weakness undermined USD returns for European and Japanese bonds. Bonds not only underperformed our preferred asset classes (global equities and alternative strategies), they also generated negative returns of 3.9% on an absolute basis.

However, within the USD bond universe, results have been mixed. We had favoured Emerging Market (EM) investment grade (IG) bonds and global corporate credit. The former returned positive absolute returns, while the latter, weighed down by EUR and JPY currency weakness, did not.

Our Overweight calls on China onshore and offshore bonds was successful, generating positive returns of 5.1% and 2.4% respectively by the time we closed the strategies in July. Our call to take profits in late July was timely, just ahead of China's currency policy shift that weakened the CNY.

Out of the three local currency bond markets we suggested to clients in the Outlook 2015, only INR bonds now remains open. After a disappointing first half, INR bonds rallied on the back of further central bank easing, and closed the year with 1.3% in absolute performance.

Equities

Our preferred asset class, global equities, had a challenging year in 2015. Heading into 2015, our Overweight US equities call delivered positive returns until the strategy was closed in February, generating 4.8% in absolute terms and outperforming the global benchmark at that time. US equities have not gained much since, with the first half of 2015 posting flattish gains of just over 1%, while the second half saw all markets recovering from August and September lows.

Meanwhile, being Overweight in European and Japanese equities has proven to be the right call, especially on a currency hedged basis, with the USD strengthening against both the euro and yen throughout the year. Our Europe strategy posted an absolute total return of 7.1% over the year, while our Japan strategy resulted in a gain of 11.6%.

We also took a view that Asia ex-Japan equities would deliver positive returns but underperform the global equities benchmark. We closed our Underweight Asia ex-Japan call on 24 July, a view which has worked well for us with the index returning positive absolute performance (1.8%) and at the same time, underperforming the global benchmark by 3%. However, Asia ex-Japan equities fell 8.5% over the past 12 months.

A country call we suggested to clients at the start of the year was an Overweight on Indian equities, where we took profits of 1.7% in mid-May.

In terms of sector calls, our top sector pick in 2015 was global technology which resulted in an absolute total return of 7.9% and outperformance relative to the global benchmark by 7.8%. We closed an Overweight US food and beverages sector view earlier in mid-May. Performance was mixed, with the call up 5.6%, but it underperformed its broader benchmark by 1.2%.

Commodities

We started the year with a bearish view on Commodities. It proved to be one of the best performing calls we made, with the index down 28.5%, lagging the benchmark global equities MSCI Index by 28.6%. However, we were less successful with our Underweight view on Gold which we expected to underperform within the commodities space. It posted an absolute total return of 0.6% by the time we closed the call in mid-February, but has since dropped by over 12% over the year.

Alternative Strategies

One of our key themes as part of a W.I.D.E.N. strategy was for investors to enhance their allocations with alternative strategies.

Alternative strategies did outperform fixed income in 2015. Macro strategies outperformed long-short and event-driven strategies with a meagre total return of 0.3%, but outperformed its benchmark index by 2.1%. The consistently negative outlook for Emerging Markets underpinned this performance, amidst the continued uncertainty surrounding global growth.

Foreign Exchange

Our year-long bullish USD stance, underpinned by expectations of higher US rates, saw solid returns of 11.4% in 2015. We also highlighted our bearish view on commodity currencies of Australia and New Zealand. While we are still reaping the performance from the downtrend of the Australian Dollar, we closed the Underweight New Zealand dollar call in late-April. Though it returned a positive alpha of 2.3%, in hindsight, we took profits too early.

Within Asia-ex Japan, we expected the CNY and INR to outperform regional currencies (ADXY Index). We were partially right on the calls, as CNY outperformed ADXY by 1.9% while INR lagged the benchmark by 1.7%. We note, however, that both currencies have fallen in absolute terms this year.

We also made two moderately bearish calls on the TWD and KRW. The KRW view marginally worked (down 0.1%), but the TWD view did not (up 0.6%) before we closed the positions in late-March.

Multi-income

Our multi-income allocation performed reasonably on a relative basis in 2015, with particularly strong returns from non-core income. Our top calls here in terms of inception to date returns were in European high dividend equity (FX-hedged), which returned 12.1%, and our Covered Call Strategy which returned 9.5%. High dividend European equity was helped by our decision to hedge the currency risk in light of expected weakness in the Euro.

Fixed income, on the other hand, was a drag in terms of absolute performance and our overall bucket returned -0.5% since strategy inception. Our decision to include INR bonds to the bucket was positive for allocation and helped prevent returns from entering negative territory.

2015 performance summary

Theme	Index Name[1]	Relative Benchmark[1]	Status	Date Closed	Absolute[2]	Relative[3]
BONDS						
Underweight Bonds	Citi WorldBIG Index USD	MSCI All-Country World Daily Total Return Net USD	Open		n/a	✔
Overweight EM Investment Grade (IG) Bonds	J.P. Morgan EMBI Global Diversified IG Index	Citi WorldBIG Index USD	Open		✔	✔
Overweight Global Corporate Credit	Citi WorldBIG Corporate Index USD	Citi WorldBIG Govt/Govt Sponsored Index USD	Open		✘	✔
Favour CNY local bonds (USD)	S&P China Corporate Bond Index		Closed	31-Jul	✔	n/a
Favour CNH local bonds (USD)	Barclays Offshore Renminbi Index		Closed	31-Jul	✔	n/a
Favour INR local bonds (USD)	CRISIL Composite Bond Fund Index		Open		✔	n/a
Flattening 30-10 UST	US Treasury 30-10 yield spread		Open		✘	n/a
Flattening 10-2 UST	US Treasury 10-2 yield spread		Open		✔	n/a
EQUITIES						
Equities preferred over bonds	MSCI All-Country World Daily Total Return Net USD	Citi WorldBIG Index USD	Open		✔	✔
Overweight US	MSCI Daily Total Return Net USA USD	MSCI All-Country World Daily Total Return Net USD	Closed	12 Feb	✔	✔
Overweight Euro (Hedged)	MSCI Europe Index Hedged to USD	MSCI All-Country World Daily Total Return Net USD	Open		✔	✔
Overweight Japan (Hedged)	MSCI Japan US Dollar Hedged Net Index	MSCI All-Country World Daily Total Return Net USD	Open		✔	✔
Underweight Asia ex-Japan[4]	MSCI All-Country Daily Total Return Net Asia ex-Japan USD	MSCI All-Country World Daily Total Return Net USD	Closed	24-Jul	✔	✔
Overweight India	MSCI Emerging Markets India Net Total Return USD	MSCI All-Country Daily Total Return Net Asia ex-Japan USD	Closed	19 May	✔	✘
Global Technology	MSCI All-Country World Daily Total Return Information Technology USD	MSCI All-Country World Daily Total Return Net USD	Open		✔	✔
US Consumer Food & Beverages	MSCI US Food Beverage & Tobacco Index	MSCI US Index	Closed	21 May	✔	✘

[1] Market index used to measure performance

[2] Simple absolute returns of the Index name

[3] Returns measured relative to the specified benchmark

[4] For Asia ex-Japan Equities, we were UW, but highlighted our expectation for positive returns and a tale of two halves with H1 delivering positive returns and then performance in H2 deteriorating

	Theme	Index Name[1]	Relative Benchmark[2]	Status	Date Closed	Absolute[3]	Relative[4]
	COMMODITIES						
⬇	Underweight Commodities	Bloomberg Commodity Index	MSCI All-Country World Daily Total Return Net USD	Open		✔	✔
⬇	Underweight Gold	Gold Spot US Dollars Per Troy Ounce	Bloomberg Commodity Index	Closed	13 Feb	✘	✘
	ALTERNATIVES						
⬆	Overweight Alternative Strategies	HFRX Global Hedge Fund Index	Citi WorldBIG Index USD	Open		✘	✔
⬆	Equity Long/Short Strategies	HFRX Equity Hedge Index	HFRX Global Hedge Fund Index	Open		✘	✔
⬆	Macro/Commodity Trading Advisors	HFRX Macro/CTA Index	HFRX Global Hedge Fund Index	Open		✔	✔
⬆	Event-driven strategies	HFRX Event Driven Index	HFRX Global Hedge Fund Index	Open		✘	✘
	FX						
⬆	Bullish USD	U.S. Dollar Index		Open		✔	n/a
⬇	Moderately Bearish AUD	Australian Dollar/United States Dollar Cross		Open		✔	n/a
⬇	Moderately Bearish NZD	New Zealand Dollar/United States Dollar Cross		Closed	24 Apr	✔	n/a
⬆	CNY to outperform Asia ex-Japan	Chinese Renminbi/United States Dollar Cross	Bloomberg JP Morgan Asia Dollar Index	Open		n/a	✔
⬆	INR to outperform Asia ex-Japan	Indian Rupee/United States Dollar Cross	Bloomberg JP Morgan Asia Dollar Index	Open		n/a	✘
⬇	Moderately Bearish KRW	South Korean Won/United States Dollar Cross		Closed	27 Mar	✔	n/a
⬇	Moderately Bearish TWD	Taiwanese Dollar/United States Dollar Cross		Closed	27 Mar	✘	n/a
	MULTI-ASSET INCOME						
⬆	Flexible in Fixed Income			Open		n/a	n/a
⬆	Conviction in Equity Income			Open		✔	n/a
⬆	CNY Bonds (USD)			Open		✔	n/a
⬆	Non-core Income			Open		✔	n/a

Source: Bloomberg, Standard Chartered

Performed measured from 12-Dec-2014 (release date of our 2015 Outlook) to 8-Dec-2015 or when the view was closed. 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.

Legend: ✔ Correct call | ✘ Missed call | n/a – Not applicable | ⬆ Overweight | ⬇ Underweight | Bullish/Favour/Conviction – Expected to deliver positive returns | Flattening – A narrowing spread between long maturity and short-maturity yields

Important information

Explanatory Notes – 1. Figure 33 (page 54) and Figure 38 (page 60) show a multi-asset income asset allocation for a moderate risk profile only - different risk profiles may produce significantly different asset allocation results. Figures 33 and 38 and the asset allocation diagram (page 61) are only examples, provided for general information only and they do not constitute investment advice, an offer, recommendation or solicitation. They do not take into account the specific investment objectives, needs or risk tolerances of a particular person or class of persons and they have not been prepared for any particular person or class of persons.

2. Contingent convertible securities are complex financial instruments and are not intended to be sold and should not be sold to retail clients in the European Economic Area (EEA) (each as defined in the Temporary Marketing Restriction (Contingent Convertible Securities) Instrument 2014 (as amended or replaced from time to time) ("TMR")), which was published by the United Kingdom Financial Conduct Authority in August 2014, other than in circumstances that do not give rise to a contravention of the TMR. Copyright: