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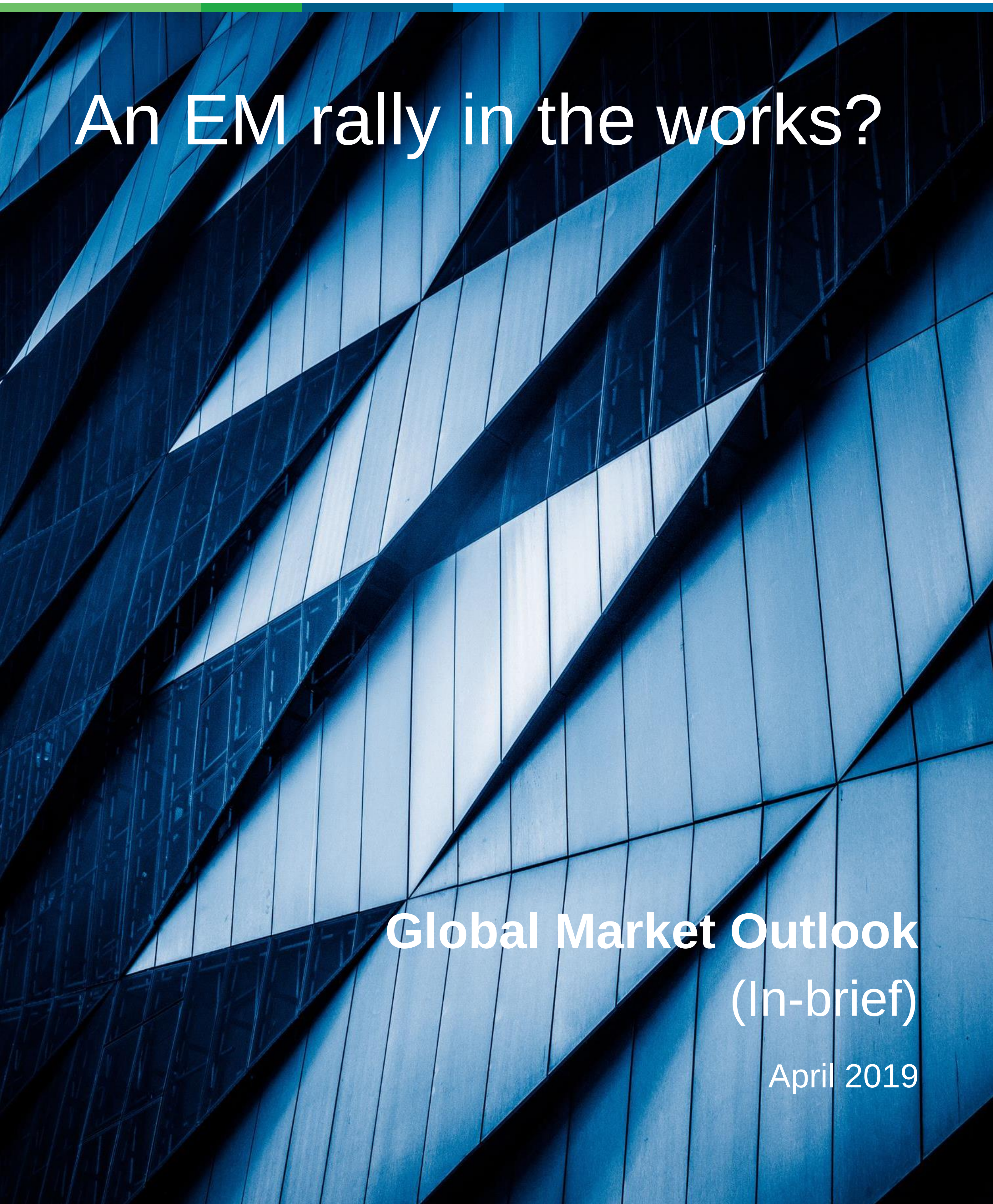


An EM rally in the works?

Global Market Outlook

(In-brief)

April 2019

Investment strategy

An EM rally in the works?

- In our Global Investment Committee's assessment, the Fed's economic and interest rate projections point to capped US bond yields and a weaker USD.
- This is likely to be a positive environment for equities and corporate/EM bonds. Asia ex-Japan equities and EM USD government bonds may benefit the most.
- Inversion of the US yield curve is a key development, but warrants close monitoring of economic data rather than an immediate reduction in equity and credit exposure, in our view. US-China trade talks and ongoing Brexit negotiations remain potential sources of volatility.

IMPLICATIONS FOR INVESTORS

Equities likely to outperform other traditional asset classes. Asia ex-Japan has the highest probability of outperforming in our assessment

EM USD government bonds most likely to outperform within our bond universe

Macro environment supportive of core allocation to alternative strategies and a weaker USD

Central banks could end up extending the economic cycle

Both equities and bonds registered modest gains over the past month, with EM outperforming Developed Markets (DM). However, the gap in performance between the best- and worst-performing markets was narrow as the key Fed mid-March meeting was preceded by relatively muted market moves.

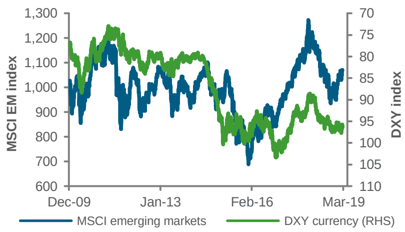
The Fed's pivot to a more dovish-than-expected stance is key, in our view. The lowering of the expected interest rate outlook should eventually take away a key source of support for the USD, improving the outlook for EM assets (see chart). In other words, dovish central banks may very well end up extending the cycle.

Of course, drawing a positive equity and corporate/EM bond outlook from the Fed requires making an assumption that growth largely holds up well. Also, in our assessment, there is a high probability that several global risks will pass without causing a growth shock to the economy. We see the UK parliament's recent series of votes and the EU's deadline extension as evidence for both sides desire to avoid a 'hard Brexit'. We also see an eventual US-China trade deal and believe it makes sense to differentiate public posturing from genuine disagreement.

Figure 1

Weak USD usually good for EM equities

MSCI EM index vs. USD (DXY) index (inverted)

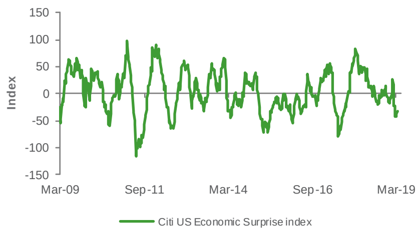


Source: Bloomberg, Standard Chartered

Figure 2

Economic surprises weakened in the US

Citi US economic surprise indices



Source: Bloomberg, Standard Chartered

What about the yield curve?

The 10 year-3 month US government yield curve (ie. the difference in yields between the two) has recently turned negative. Historically, this has been a reliable indicator of an approaching recession in the US. Does this mean one should be reducing one's allocation to risky assets?

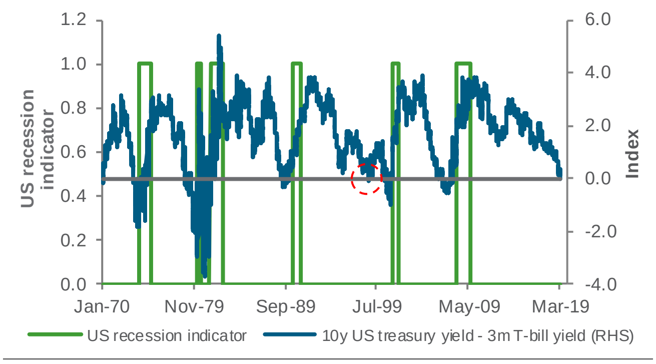
While this indicator has a decent track record (70%), it unfortunately does not tell us whether the next recession (and hence the peak in equity market) is likely to occur in a matter of months or years. This is particularly important for equity investors as history also shows markets peak about 6-9 months ahead of a recession, but usually deliver very strong returns until then.

In our Global Investment Committee's assessment, we believe the best course of action is to maintain a slightly overweight allocation to equities, but monitor other indicators that can help from a timing perspective. Two we particularly like are the US leading economic indicator and US corporate margins – a drop below zero and a sharp turn lower towards prior cycle lows, respectively, are developments that would lead us to re-evaluate our view.

Figure 3

Inverting US Treasury yield curve has historically preceded recessions, but tells us little about timing. '98 was a false signal

US Treasury 10y-3m yield curve and economic recessions



Source: Bloomberg, Standard Chartered

A preference for Asia ex-Japan equities

Recession risks notwithstanding, we believe a Fed pause is likely to most benefit EMs as a weaker USD (a result of a lower interest rate outlook) supports flows to EM assets.

For equities, Asia ex-Japan is preferred regionally. Our assessment that a US-China trade deal will be reached in the coming months is one reason behind this preference. We also believe China's stimulus measures are starting to offer support to the economy, with further stimulus likely if the economy disappoints. Together, in our assessment, this means the region's markets (and China's within that) likely have further gains ahead. EMs outside of Asia are seen as the second most likely 'region' to outperform global equities as they are also likely benefit from inflows.

In the US, equity markets are likely to maintain a focus on whether full-year earnings expectations stabilise. Euro area equities could extend their rebound in the short term if negative economic surprise readings start to normalise.

Our EM preference extends to bonds

Within bonds, as well, we have a strong preference for EM bonds. Rising inflows following a weaker USD should also benefit most EM bonds, both USD and local currency, while measures of valuation also argue there is greater value in EM (as opposed to DM) bonds. China's stimulus efforts are also likely to benefit EM bonds, either directly or indirectly (via commodity prices, for example).

Within EM bonds, we continue to believe risk/reward favours USD-denominated over local currency bonds. Relatively similar levels of yield mean the risk of directly adding currency volatility is not well-rewarded, in our assessment.

Key drivers behind our preference for EM USD government bonds – attractive valuations relative to history and to local currency bonds – remain in place, even if low market diversity suggests a short-term pullback is possible. We continue to rank Asia USD corporate bonds as a close second given their attractive yield, relatively low volatility and their natural exposure to Chinese stimulus efforts.

A preference for credit

In a multi-asset context, we believe a Fed-on-pause offers support for an income-oriented strategy. Within income strategies, though, (i) we clearly prefer 'credit' (as opposed to G3 government) bonds as a source of income, and (ii) continue to tilt away from senior floating rate loans towards regular High Yield (HY) bonds as credit risks incrementally rise in loans. This approach also avoids excessively lengthening maturity profiles in an environment where the risk of very long maturities is not well-rewarded, in our view.

Perspectives
on key client questions

Should we be concerned about yield curve inversion?

The 3-month US government T-bill yield recently rose above the 10-year government bond yield (commonly known as yield curve inversion) for the first time since 2007.

In general, the yield curve tends to flatten as an economy moves towards late stages of the economic cycle. The central bank anchors short-term rates with its monetary policy and economic conditions influence the long-end. An inverted yield curve occurs when the policy rates are raised, forcing up the short-term yields and economic conditions deteriorate, forcing down the long-term yields.

Historically, every recession since the 1960s (Figure 6) has been preceded by an inverted yield curve and therefore it is not surprising that investors have become a little nervous about the recent inversion. However, there are 3 additional factors that we believe offer comfort that a significant equity market downturn may not be imminent.

First, there have been three occasions when the curve inverted without a recession in the following 24 months. For example, in 1966, there were two instances of yield curve inversion during the year, without a recession in the next 3 years. Similarly, in 1998, there was a brief inversion of the curve against the backdrop of the Asian currency crisis, Russia's bond default and implosion of Long Term Capital Management (LTCM). The Fed's intervention to cut rates and unwind LTCM's holdings eventually led to a re-steepening of the curve and staved off a potential recession.

Second, a curve inversion does not help with timing a recession or equity market peak. Indeed, the average lag between an inversion of the 10-year and 3-month Treasury yield curve and a recession has historically been 14 months (the lag for the similar 10-year and 2-year yield curve, which has not occurred yet, has been even longer at 27 months). Given equities tend to offer some of their best returns late in the cycle, leaving early could come with a significant cost in terms of missed returns.

Figure 4

Curve inversion preceded recessions in each of the last 6 recessionary episodes; there was also a false positive where the curve inverted briefly in 1998.

Summary chart on recession and 10year -3month curve inversion

Source: Bloomberg, Standard Chartered

Figure 5

Average span between inversion and subsequent recession has been 14 months, with a range between 6 to 27 months

Curve inversion preceded recessions in each of the last 7 episodes

10yr-3m yield curve inversion	Recession start	Recession trough	# months of inversion	Time lag - inversion to recession (months)	SPX % return (inversion to recession start)
12-Jan-66	False alarm		6 days	NA	NA
8-Sep-66	False alarm		4.7	NA	NA
10-Oct-67	31-Dec-69	30-Nov-70	3.4	27	-4.9%
1-Jun-73	30-Nov-73	31-Mar-75	14.4	6	-6.1%
1-Nov-78	31-Jan-80	31-Jul-80	16.9	15	26.2%
27-Oct-80	31-Jul-81	30-Nov-82	9.4	9	6.6%
28-Mar-89	31-Jul-90	31-Mar-91	4.5	16	27.8%
11-Sep-98	False alarm		3 days	NA	NA
6-Jul-00	31-Mar-01	30-Nov-01	6.7	9	-19.7%
17-Jul-06	31-Dec-07	30-Jun-09	10.3	17	22.4%
Average			**9.4**	**14**	**7.5%**

Source: Bloomberg, Standard Chartered

Third, the signalling power of the yield curve may be weaker than it has been historically due to changes in supply/demand dynamic for government bonds. In addition to the Fed reinforcing its dovish turn, the current inversion was preceded by weaker-than-expected economic data from not only the US, but also from Europe, pushing the German 10-year bund yield into negative territory and placing downward pressure on long-end US Treasury yields.

Additionally, central bank asset purchases may have also substantially depressed long-term US bond yields. A Fed research paper suggested that quantitative easing (QE) may have reduced the term premium (i.e. the additional return investors can expect to hold a 10-year government bond instead of rolling over a short-term Treasury bill for the entire decade) by 100bps, which suggests a flatter yield curve than the past for a similar economic outlook.

Looking forward, the key is whether this inversion will become more pronounced or reverse. If long rates continue to fall persistently below short-rates, it will become increasingly unprofitable for banks to borrow money in the form of short-term deposits and lend to companies and individuals over longer periods. This would potentially curtail bank lending, tightening financial and credit conditions and eventually lead to a recession and a peak in equity markets. **What we find interesting is that high yield credit spreads (Figure 7) did not increase materially on the back of the recent inversion.**

Figure 6

Credit spread did not pick up materially in US junk bonds

US High Yield credit spread

Source: Bloomberg, Standard Chartered

Looking at history, the relationship between an inverted yield curve and the stock market is mixed (Figure 7) given the wide dispersion in stock market performance.

The table above illustrates this around the past inversions. The average returns of the S&P 500 index from the first inversion to the start of recession is 7.5%, with a range of -20% to +28%.

In terms of bond markets, bond yields tend to go up after the initial inversion. (Figure 9). This may seem counter-intuitive, given an inverted yield curve tends to be associated with a deterioration in economic conditions. **However, the Fed's reaction function plays a key role in how Treasury bond yields evolved after the initial curve inversion.** Indeed the Fed had continued to hike rates in all past episodes of yield curve inversions, except in 1989 and 2000 (leaving aside the 1998 'false alarm').

Figure 7

Fed's reaction function post inversion drives subsequent yield evolution.

Number of basis point change in US 10y Treasury bond yield post yield curve inversion across multiple time horizons (T+ no of days)

	T+30	T+60	T+90	T+180	T+360
1973	-2	47	29	-26	53
1978	14	49	29	69	201
1980	52	12	71	175	325
1989	-34.6	-74.5	-120.6	-117.5	-86.4
2000	-14.7	-36.5	-16.2	-113.3	-63.6
2006	25.85	34.65	67.92	73.89	45.1
Average	**5.1**	**4.5**	**4.2**	**13.9**	**82.9**
Median	-2	12	29	36.1	53

Source: Bloomberg, Standard Chartered

Can more accommodation by central banks extend the economic cycle?

Yes, our Global Investment Committee believes so. Historically, economic expansions do not die of old age, but typically end when monetary policy turns restrictive. In a surprise move last week, the Fed said it no longer expects to hike rates in 2019 and will stop reducing assets on its balance sheet (Quantitative Tightening) by end- September this year. This shift in stance is expected to help ease financial conditions globally and encourage other central banks (especially in Emerging Markets) to pause, or cut rates.

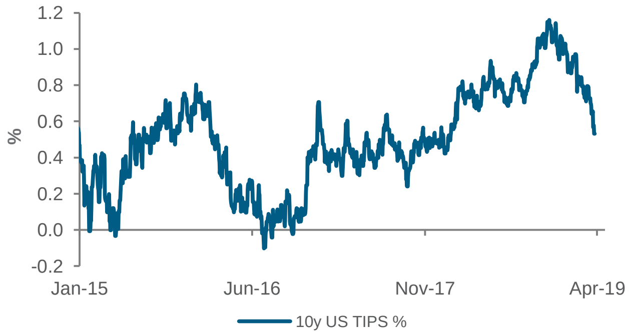
This change in the Fed's reaction function should extend the economic expansion for longer. Real yields (ie. net of inflation expectations) are now back to levels last seen in 2017 and are nowhere close to the restrictive levels which tend to result in a recession. Expectations for an extension of the cycle could support equities.

In terms of risk factors, runaway inflation and wage growth are two key factors which could result in the Fed turning hawkish. Neither appear to pose a near-term problem. Inflation remains well-anchored and surprises have fallen in recent months on the back of moderating growth. If the Fed is indeed trying to engineer an inflation overshoot, this could extend the expansion by another 12-24 months.

Figure 8

Real rates back levels seen in late 2017

US 10-year Treasury Inflation Protected Security (TIPS) yield



Source: Bloomberg, Standard Chartered

Figure 9

No signs of upside surprise in global inflation which may trigger a reversal in central bank accommodation

Citi inflation surprise index

Source: Bloomberg, Standard Chartered

Macro overview

Central banks turn firmly dovish

- **Core scenario:** Global growth continues to slow towards its long-term trend and some indicators point to further near-term softness. But we continue to expect stabilisation by H2 on the back a decisively dovish shift by global central banks and pro-growth measures in China.
- **Policy outlook:** Subdued inflation and slowing growth means the Fed no longer likely to hike this year, the ECB and BoJ to sustain their existing accommodative policy stance and China to ease policy further.
- **Key risks:** Most risk factors – US politics and geopolitics, a tightening Fed and reduced market liquidity, and Euro area tensions – have abated in recent months. US inflation or China deflation surprise are key risks that would significantly alter this outlook.

Core scenario

In our assessment, global growth is likely to slow slightly in 2019 towards its long-term trend, while inflation remains subdued. While the US yield curve has inverted (a potential indicator of further growth concerns) and the global manufacturing sector activity has started to contract, we expect the decisively dovish shift in monetary policy worldwide, combined with China's fiscal stimulus, to stabilise growth by H2. Labour markets remain tight globally, which is likely to sustain consumption. A thaw in US-China trade tensions and a Brexit breakthrough have the potential to revive corporate investment. The inflation outlook remains a risk.

Figure 10

Asia ex-Japan and the US remain the world's biggest growth drivers

Region	Growth	Inflation	Benchmark rates	Fiscal policy	Comments
US	◐	◐	◐	◐	Growth to slow modestly towards long-term trend, but strong job market to support wages, consumption. Fed to hold rates in 2019
Euro area	○	●	●	●	Growth and inflation to fall to long-term trend amid slowing global trade; ECB signals accommodative policy to stay through 2019
UK	◐	◐	◐	◐	Reduced expectations of a 'hard Brexit'; BoE to hold rates until Brexit uncertainty wanes
Japan	○	●	●	◐	Growth and inflation to stay close to long-term trend. BoJ to stay highly accommodative
Asia ex-Japan	●	◐	◐	●	China's stimulus likely to stabilise growth by H2. Rest of Asia to benefit from increasingly dovish global central banks, China's stimulus
EM ex-Asia	◐	◐	◐	◐	Differentiation remains critical; dovish central banks to ease liquidity; China stimulus to help

Source: Standard Chartered; Consensus global growth estimate: 3.5% in 2019 vs. 3.7% in 2018

Legend: ● Supportive of risk assets ◐ Neutral ○ Not supportive of risk assets

IMPLICATIONS
FOR INVESTORS

The Fed to hold rates for rest of 2019

The ECB and BoJ to maintain their highly accommodative monetary policies

China to progressively ease fiscal and monetary policies to support domestic-driven growth

Bonds

Fed pause to support EM bonds

- Bonds remain a core investment allocation as diversification remains important in the late stage of an economic cycle. The Fed's dovish shift in Fed is also supportive for bonds, reducing the risk of a sharp rise in yields/decrease in prices. In our assessment, the US 10-year Treasury yield (current near 2.4%) is likely to settle around 2.75% in the coming 12 months.
- Reduced Fed rate hike fears and our expectation for a weaker USD should lead to higher demand for Emerging Market (EM) assets. We prefer EM USD government bonds as they offer an attractive yield, reasonable valuations and should benefit from higher inflows.
- Asian USD bonds are a core holding and remain the second most likely to outperform over the coming 6-12 months, in our assessment. We like their high credit quality and defensive characteristics. We raise Developed Market (DM) High Yield (HY) bonds to a core holding.

Figure 11
Bond sub-asset classes in order of preference

Bond asset class	View	Rates policy	Macro factors	Valua-tions	FX	Comments
EM USD government	▲	◐	●	●	NA	Attractive yields, relative value and fund inflows are positive
Asian USD	◆	◐	●	◐	NA	High credit quality, defensive allocation. Influenced by China risk sentiment
EM local currency	◆	●	●	◐	●	Attractive yield and easier central bank stance balanced by higher volatility
DM HY corporate	◆	◐	◐	◐	●	Attractive yields on offer, offset by high leverage
DM IG government	◆	◐	◐	NA	◐	More dovish Fed and ECB policy to cap yields. Hedge FX risk
DM IG corporate	◆	◐	◐	◐	◐	High credit quality but offer low yield premium and have high interest rate sensitivity

Source: Standard Chartered Global Investment Committee

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

IMPLICATIONS
FOR INVESTORS

EM USD government bonds are most likely to outperform global bonds

Expect US 10-year Treasury yields to be centred around 2.75% over the next 6-12 months

Asian USD bonds second-most likely to outperform global bonds

Figure 12
Where markets are today

Bonds	Yield	1m return#
DM IG government (unhedged)	1.54%*	1.5%
EM USD government	6.05%	1.1%
DM IG corporates (unhedged)	2.96%*	1.9%
DM HY corporates	6.44%	0.2%
Asia USD	4.33%	2.1%
EM local currency government	6.23%	-0.9%

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

28 February to 28 March 2019
As of 28 February 2019

Equities

Equities – Preference for EM's

- Global equities remain our most-preferred asset class. In our assessment, there is a 75% probability that global equities will outperform other asset classes. Emerging Markets are preferred within equities following the Fed's dovish pivot and likely USD weakness.
- Asia ex-Japan is our most-preferred market, followed by non-Asia EM. Market drivers include stimulative policies in China as well as our view of a weaker USD in 2019.
- US equities are a core holding. We expected positive returns from US equities in the coming 6-12 months driven by: 1) easier financial conditions, 2) investors looking through Q1 earnings weakness, and 3) resilient margins as higher labour costs are offset by productivity gains.
- Euro area and UK equities are middle ranked in our equity preference order. This reflects the valuation discount that emerged in 2018 and the catalyst from improving growth forecasts at the margin.
- Japan is our least-preferred market, with our Global Investment Committee estimating a 36% probability of outperforming global equities.
- Risks to our equity views: US growth and earnings recession, sharp tightening in US monetary policy, weakening Chinese growth.

Figure 13

Equity	View	Valuations	Earnings	Return on equity	Economic data	Bond yields	Comments
Asia ex-Japan	▲	◐	◐	○	◐	●	Fair valuations, signs of better earnings outlook as trade war risks ease
EM ex-Asia	◆	◐	◐	◐	◐	◐	Fair valuations with catalyst from higher commodity prices and easing trade tensions
Euro area	◆	◐	◐	◐	◐	●	Bank capital levels and risk of US auto import tariffs trade a concern
UK	◆	●	◐	○	◐	●	Soft Brexit is our base case, which could lead to market re-rating
US	◆	◐	○	●	◐	●	Rising valuations, earnings weak, but supported by share buybacks in 2019.
Japan	◆	●	○	●	◐	●	Valuations attractive. Returns to shareholders structurally rising.

Source: Standard Chartered

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

IMPLICATIONS
FOR INVESTORS

Global equities are the preferred asset class, with a tilt towards Emerging Markets

Asia ex-Japan and Emerging Markets ex-Asia are preferred US, Euro area and UK are core holdings. Japan is least preferred

Prefer China (onshore and offshore) within Asia ex-Japan

Figure 14
Where markets are today

Market P/E ratio	P/B	EPS	Index level
US (S&P 500)			
16x	3.1x	6%	**2,815**
Euro area (Stoxx 50)			
13x	1.4x	9%	**3,320**
Japan (Nikkei 225)			
13x	1.1x	2%	**21,034**
UK (FTSE 100)			
12x	1.6x	5%	**7,234**
MSCI Asia ex-Japan			
13x	1.4x	7%	**656**
MSCI EM ex-Asia			
10x	1.4x	10%	**1,360**

Source: FactSet, MSCI, Standard Chartered. Note: valuation and earnings data refer to 12-month forward data for MSCI indices, as of 28 March 2019

Alternative strategies

Alternatives as a core holding

- We maintain alternatives as a core holding
- We move Equity Hedge and Global Macro to core holdings, as expectations for higher equity volatility have moderated and risk sentiment is positive
- The outlook for M&A activity has turned less negative, supporting an upgrade of Event Driven to a core holding as well

Performance review of alternatives strategies

We maintain alternatives as a core holding as late-cycle dynamics persist.

In March, our alternatives allocation returned 0.5%, with our views being largely consistent with the relative performance across strategies. Our preferred strategies (Equity Hedge and Global Macro) were the only ones to deliver positive returns, while our least-preferred strategy (Event Driven) was indeed the weakest performer.

This month, we move Equity Hedge to a core holding as expectations for higher equity volatility have moderated, implying less performance dispersion and hence fewer long/short opportunities going forward. Global Macro moves back to a core holding as well. This is consistent with positive risk sentiment, since Global Macro has typically shown low correlation to traditional assets and is viewed as a "diversifier".

Lastly, we also raise Event Driven to a core holding, on the back of a less negative outlook for M&A activity.

We adjust our alternatives allocation: Equity Hedge 36% (from 39%), Relative Value 26% (from 27%), Event Driven 19% (from 9%) and Global Macro 19% (from 25%). For more information on the allocation, please refer to *Outlook 2019*.

Figure 15

Traffic light framework - alternatives strategies

		Description	View	Drivers for strategies to perform	
Substitutes	Equity Hedge	In essence, buying undervalued stocks and selling overvalued stocks	◆	• Positively trending equity markets	●
				• Rising equity market dispersion	◐
	Relative Value	Looking to take advantage of differences in pricing of related financial instruments	◆	• Falling interest rates/cost of funding	◐
				• Narrowing credit spreads	◐
	Event Driven	Taking positions based on an event, such as a merger or an acquisition	◆	• Positively trending equity markets	●
				• Rising mergers and acquisitions	◐
				• Narrowing credit spreads	◐
Diversifier	Global Macro	Looking to exploit themes, trends and asset class relationships (correlations) at a global level, generally with leverage	◆	• Rising volatility and credit spreads	◐
				• Increasing cross asset dispersion	◐
				• Clear market trends (up/down)	◐

Source: Standard Chartered

Legend: ● Supportive ◐ Neutral ○ Not Supportive ▲ Preferred ▼ Less Preferred ◆ Neutral

IMPLICATIONS
FOR INVESTORS

Diversified alternatives allocation preferred, given our outlook on volatility and late-cycle dynamics

Equity Hedge, Global Macro and Event Driven moved to core holdings

Equity Hedge remains our top-ranked strategy; Global Macro remains an attractive diversifier

Figure 16

Where markets are today

Alternatives	YTD	* 1m return
Equity Hedge	6.0%	0.8%
Relative Value	2.6%	-0.2%
Event Driven	0.8%	-1.5%
Global Macro	0.4%	1.6%
Alternatives Allocation	2.9%	0.5%

Source: Bloomberg, Standard Chartered
* 28 February 2019 to 28 March 2019

FX

USD expected to peak as growth and rate differentials narrow

- A more dovish Fed enables global economies to add stimulus. Recent US economic exceptionalism is expected to narrow
- ECB has little room to lower rates. Reduced interest rate differentials should help drive the EUR higher. US auto tariffs remain a threat. 'No deal' Brexit is unlikely.
- CNY stability expected as trade talks continue. Investor inflows to offset current account deficit. AUD to remain subdued, but EM FX is attractive.

Figure 17

Foreign exchange: key driving factors and outlook

Currency	3m View	12m View	Real interest rate differentials	Risk sentiment	Commodity prices	Comments
USD	◆	▼	○	◐	NA	Dovish Fed; rate differentials to narrow
EUR	◆	▲	●	◐	NA	Growth to bottom; rates cannot fall far
JPY	◆	◆	◐	◐	NA	Undervalued, but BoJ shift unlikely
GBP	▲	▲	◐	●	NA	No-deal Brexit risk to fade; undervalued
AUD	◆	◆	○	○	◐	RBA can cut rates to cushion consumers
CNY	◆	◆	○	●	◐	Trade talk stability; capital inflows offset falling current account

Source: Bloomberg, Standard Chartered Global Investment Committee

Legend: ● Supportive ◐ Neutral ○ Not Supportive ▲ Bullish ▼ Bearish ◆ Range

USD – Peaking process will lead to a lower dollar in H2

We believe the USD is entering the final stages of an uptrend that began in February 2018 at 88.25 (DXY index). The coming weeks could see increased volatility, but we expect the Fed's recent significant shift in interest rate outlook to be the driver of a lower USD, possibly from around mid-year. Slowing global growth is now impacting the US economy. Global interest rates have less room to fall than the US, and a narrowing of interest rate differentials will weigh on the USD. Our outlook also rests on the premise that global fiscal and monetary stimulus (that has already begun) will continue and help economic data and sentiment to turn positive. As US growth and rate differentials with the rest of the world narrow, there is a window for the richly-valued USD to reverse and begin a new downtrend. A sustained break of key support at 95.00 would imply that a new downtrend has begun, initially targeting 92.00.

IMPLICATIONS
FOR INVESTORS

A softer EUR bias could continue in H1, but we expect EUR/USD to initiate a new uptrend by H2

We expect GBP to remain supported through near-term Brexit volatility and to rally to a higher trading range as uncertainty falls

A currency agreement within a trade agreement could support CNY and some other Asian EM FX. Lower domestic growth and interest rates could weigh on AUD

Figure 18

Where markets are today

FX (against USD)	Current level	1m change#
Asia ex-Japan	106	-0.2%
AUD	0.71	-0.3%
EUR	1.12	-1.3%
GBP	1.30	-1.7%
JPY	111	0.7%
SGD	1.36	-0.3%

Source: Bloomberg, Standard Chartered
28 February to 28 March 2019

Multi-asset income

EM a key source of income

- We continue to advocate having a multi-asset income allocation as a core component of a diversified investment allocation.
- A historical analysis suggests US yield curve inversion is not an imminent concern for a multi-asset income strategy.

Key drivers supportive of multi-asset income in 2019

Our multi-asset income allocation has returned 6.7% YTD, owing to strong performance in global high dividend equity, Emerging market (EM) bonds and Developed Market (DM) High Yield (HY) bonds.

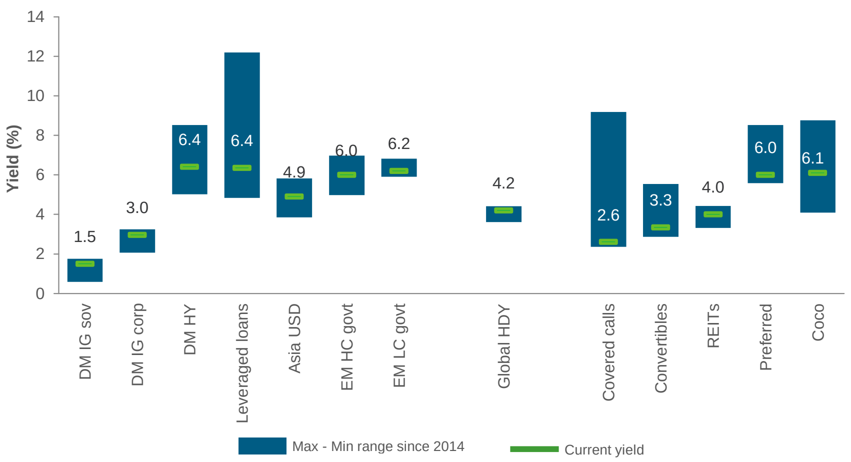
Looking ahead, we believe that a diversified income strategy remains attractive as a core component of a diversified investment allocation. There are three factors behind our conviction: (i) accommodative monetary policy of major central banks; (ii) low probability of a spike in the US 10-year Treasury yield; (iii) a likely weaker USD benefitting EM bonds – a key component in our multi-asset income allocation.

Despite the recent market rally, we continue to see attractive yields across the income asset spectrum. By diversifying an income strategy, it is possible to achieve the target yield of 4%-5% without taking excessive risk, in our view.

Figure 19

Target yield remains achievable in 2019

Current yield to maturity/dividend yield (%) vs. historical ranges (2014- 2019)



Source: Bloomberg, Standard Chartered

IMPLICATIONS
FOR INVESTORS

Yield target of 4%-5% is achievable for income-oriented investors

Multi-asset income allocation as a core component of a diversified investment allocation.

Yield curve inversion is not an immediate concern for multi-asset income strategy.

Figure 20

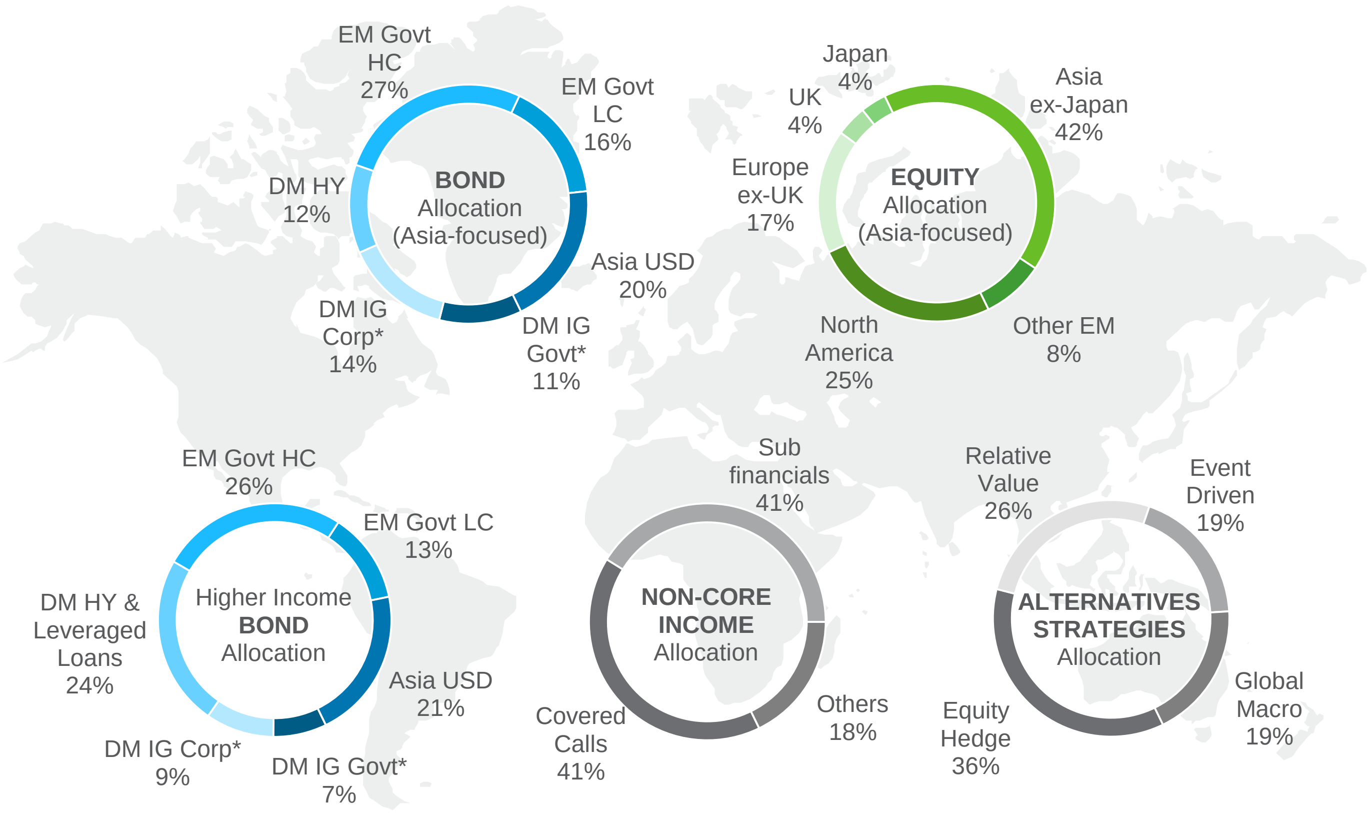
Allocation performance

Allocation performance	YTD	1m return*
Multi-asset income	6.7%	1.0%

Source: Bloomberg, Standard Chartered
As of 28 March 2019

Our recommended allocations

Asset class sleeves



Tailoring a multi-asset allocation to suit an individual's return expectations and appetite for risk

- We have come up with several asset class "sleeves" across major asset classes driven by our investment views
- Our modular allocations can be used as building blocks to put together a complete multi-asset allocation
- These multi-asset allocations can be tailored to fit an individual's unique return expectations and risk appetite
- We illustrate allocation examples for both Global and Asia-focused investors, across risk profiles

BOND Allocation (Asia-focused)	Higher Income BOND Allocation	EQUITY Allocation (Asia-focused)	NON-CORE Income Allocation	ALTERNATIVE STRATEGIES Allocation
• For investors who want a diversified allocation across major fixed income sectors and regions • Asia-focused allocation	• For investors who prefer a higher income component to capital returns from their fixed income exposure • Includes exposures to Senior Floating Rate bonds	• For investors who want a diversified allocation across major equity sectors and regions • Asia-focused allocation	• For investors who want to diversify exposure from traditional fixed income and equity into “hybrid” assets • Hybrid assets have characteristics of both bonds and equity • Examples include Covered Calls, REITs and sub-financials (Preferred Shares and CoCo bonds)	• For investors who want to increase diversification within their allocation • Include both “substitute” and “diversifying” strategies

Allocation figures may not add up to 100 due to rounding. *FX-hedged

Asset allocation summary

Tactical Asset Allocation - (12m). All figures are in percentages.

		ASIA FOCUSED				GLOBAL FOCUSED			
Summary	View	Conservative	Moderate	Moderately Aggressive	Aggressive	Conservative	Moderate	Moderately Aggressive	Aggressive
Cash	▼	14	6	3	0	14	6	3	0
Fixed Income	◆	66	42	31	8	66	42	31	8
Equity	▲	21	38	53	83	21	38	53	83
Alternative Strategies	◆	0	14	13	8	0	14	13	8

		ASIA FOCUSED				GLOBAL FOCUSED			
Asset class	View	Conservative	Moderate	Moderately Aggressive	Aggressive	Conservative	Moderate	Moderately Aggressive	Aggressive
USD Cash	▼	14	6	3	0	14	6	3	0
DM Government Bonds	◆	7	5	3	1	10	7	5	1
DM IG Corporate Bonds*	◆	9	6	4	1	13	8	6	2
DM HY Corporate Bonds*	◆	8	5	4	1	11	7	5	1
EM USD Government Bonds	▲	18	11	8	2	13	8	6	2
EM Local Ccy Government Bonds	◆	11	7	5	1	8	5	4	1
Asian USD Bonds	◆	13	8	6	2	10	6	5	1
North America	◆	5	10	14	21	9	17	24	37
Europe ex-UK	◆	3	6	9	14	2	3	5	7
UK	◆	1	2	2	4	1	2	2	4
Japan	◆	1	1	2	3	1	1	2	3
Asia ex-Japan	▲	9	16	22	35	6	11	16	24
Non-Asia EM	◆	2	3	5	7	2	3	5	7
Alternative Strategies	◆	0	14	13	8	0	14	13	8
		100	**100**	**100**	**100**	**100**	**100**	**100**	**100**

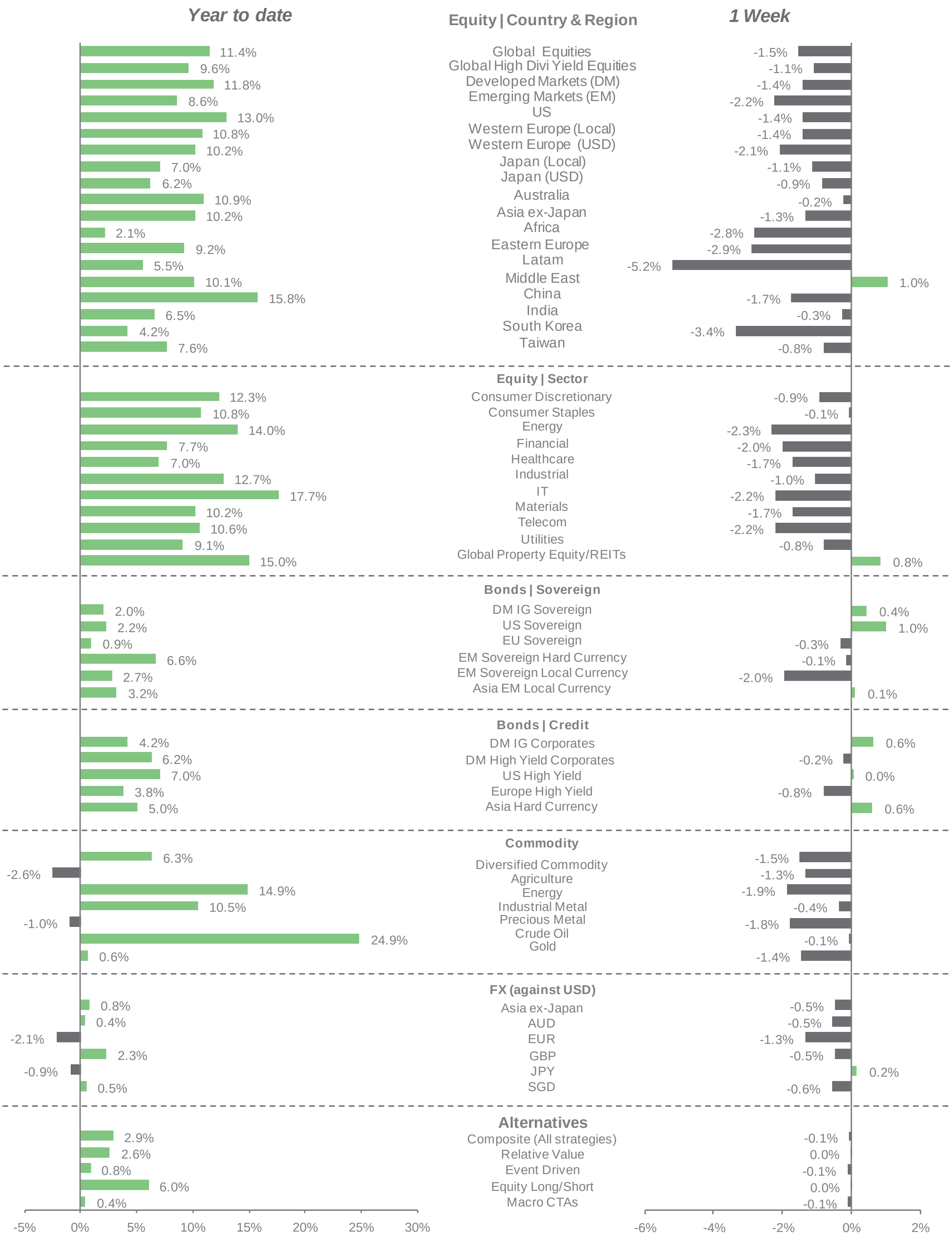
Source: Bloomberg, Standard Chartered

For illustrative purposes only. Please refer to the disclosure appendix at the end of the document. * FX-hedged

*Note: (i) For small allocation we recommend investors to implement through global equity/global bond product; (ii) Allocation figures may not add up to 100 due to rounding. *FX-hedged*

Legend: ▼ Least preferred ◆ Core holding ▲ Most preferred

Market performance summary*



Source: MSCI, JPMorgan, Barclays, Citigroup, Dow Jones, HFRX, FTSE, Bloomberg, Standard Chartered
*All performance shown in USD terms, unless otherwise stated
*YTD performance data from 31 December 2018 to 28 March 2019 and 1-week performance from 21 March 2019 to 28 March 2019

Events calendar

april

X	China Politburo meeting on economic policy
02	RBA policy decision
10	ECB policy decision
17	Indonesia general election due
25	BoJ policy decision

may

X	Australia federal election
02	BoE policy decision
02	FOMC policy decision
07	RBA policy decision
23-26	European Parliament election
X	India general election due

june

04	RBA policy decision
06	ECB policy decision
20	BoE policy decision
20	FOMC policy decision
20	BoJ policy decision
28-29	G20 Leaders' summit

july

X	China Politburo meeting on economic policy
01	Japan Upper House election
02	RBA policy decision
25	ECB policy decision
30	BoJ policy decision

august

01	FOMC policy decision
01	BoE policy decision
06	RBA policy decision

september

03	RBA policy decision
12	ECB policy decision
19	FOMC policy decision
19	BoJ policy decision
19	BoE policy decision

october

X	China Politburo meeting on economic policy
01	RBA policy decision
24	ECB policy decision
31	Last day of ECB President Mario Draghi's 8-year term
31	FOMC policy decision
31	BoJ policy decision

november

X	Japan's Constitutional referendum
X	APEC summit
05	RBA policy decision
07	BoE policy decision

december

X	China Central Economic Conference
X	China Politburo meeting on economic policy
03	RBA policy decision
12	FOMC policy decision
12	ECB policy decision
19	BoJ policy decision
19	BoE policy decision

Legend: X – Date not confirmed | **ECB** – European Central Bank | **FOMC** – Federal Open Market Committee (US) | **BoJ** – Bank of Japan | **BoE** – Bank of England | **RBA** – Reserve Bank of Australia

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