

Global Investment Perspective

Prospects for Global Investments - May 2011

Highlights

During April, developed markets continued to show encouraging signs of recovery, especially in the US. On the economic front, US labour data was encouraging as non-farm payrolls rose above expectations. Elsewhere, first quarter corporate earnings in several regions were impressive, which boosted investor sentiment further.

In emerging markets, economic data remained strong, underscoring the fact that growth has remained resilient despite monetary tightening. However, the possibility of additional monetary tightening measures to curb growth until inflation pressures is restrained.

The positive performance of equities in April masked significant volatility stemming from uncertainty over the tension in the Middle East and North Africa (MENA) and ongoing sovereign debt issues among peripheral eurozone nations.

April Market Recap

Developed equity markets rose 2.3% in April, outperforming emerging markets, which returned a modest 0.8%. The outperformance of developed markets was driven by a combination of encouraging macro economic news and positive earnings surprises. Emerging market performance was led by the Asian region, which returned a positive 2.3% thanks to strong economic data. For instance, China and South Korea's exports surged by more than 30% year-on-year in March as overseas demand picked-up. Other main regions within emerging markets declined, with Latin America posting a negative 2.8% and Eastern Europe falling by 1%.

Outlook and Strategy

Overall our constructive view on risky assets remains intact despite increasing uncertainty around inflationary and policy risks. Reflecting this, we believe that it is still appropriate to be overweight risky assets on a tactical basis, but less so than previously because of heightened risks.

While the global economic recovery is making progress, conditions remain challenging and uncertainty around the strength of the recovery persist. Therefore, our central scenario remains unchanged. Overall, we anticipate positive, albeit moderate, sub-trend economic growth in developed economies in 2011. Furthermore, we also expect ongoing strength in emerging economies. Our main concern here is the prospect of further monetary tightening, which could impact global growth prospects, given that emerging economies have been an important engine behind the global economic recovery to date.

In the developed world, the key risks on the economic horizon remain fiscal tightening and weak consumption. The prospects for labour markets and consumption remain unclear, despite some signs of stabilisation. Unemployment rates are still elevated and consumers are still endeavouring to unwind debt positions, particularly in the US and the UK.

At an asset class level, we maintain a modest overweight position in both developed and emerging market equities relative to cash and government bonds. The market remains supported by liquidity, driven by not only by capital injections of central banks but also by the high levels of cash on corporate balance sheets. This is positive for equities as it gives companies flexibility to improve returns to shareholders via greater dividends, share buy-backs or M&A activity. In summary, equities are supported by the positive collective backdrop of improving economic data, particularly in the US, reasonable earnings growth forecasts for 2011 and undemanding stock valuations, not least relative to cash and government bonds.

Within the context of developed market equities, we maintain a moderate preference for Japanese equities on a currency-hedged basis. Although there may be short-term volatility, we believe this market offers an attractive opportunity as the current price-to-earnings ratio is still trading below the historic average. Within emerging markets, we continue to favour Russia on the basis of attractive stock valuations on both a relative and absolute basis, and signs of improving economic conditions. Furthermore, following the political turmoil in the MENA region and its impact on crude-oil prices, our tactical preference for Russia has proved beneficial, with its energy sector performing very strongly.

In fixed income, the fiscal situation of developed countries has put pressure on government bonds and our outlook is still cautious. In addition, central banks have started to act in response to rising inflationary fears. Following the recent increases in consumer prices, the European Central Bank increased rates by 25bps to 1.25% and signalled the possibility of a further rate increase, adding that "strong vigilance" is needed to tackle inflation risks. Nevertheless, such a response could aggravate the uphill struggle facing Eurozone peripheral economies that have yet to address their large debt issues. Therefore, although a moderate increase in rates is expected, we do not anticipate an aggressive tightening cycle to begin at this stage. Our preference remains for developed market corporate bonds, and particularly non-investment grade ('high yield') bonds as they benefit from the favourable conditions for corporate earnings and their extra yield has the potential to offer some protection should government bond yields rise further. Turning to USD-denominated emerging market debt, we continue to believe that while favourable relative to developed government bonds, the asset class looks less attractive than developed high yield and other developed corporate debt. Furthermore, we also have a moderately negative view on global developed inflation-linked bonds, largely because inflation in the developed world remains manageable, despite recent increases.

Short-term Investment Outlook (6-12 months)

EQUITY

Asset Class	Current View*	Reasoning
Global Developed Market Equity	Neutral	Equity valuations relative to cash and especially government debt remain attractive, plus liquidity remains supportive. There continue to be risks to the economic recovery, but our core scenario is for positive, although sub-trend growth.
US Equity	Neutral	Whilst, recent economic news-flow and corporate earnings have been encouraging, unemployment remains elevated at over 8%. Economic conditions remain mixed. UK growth has slowed, austerity measures are in the process of being rolled out in parts of Europe and the economic health of peripheral eurozone countries remains uncertain. That said, liquidity remains supportive, and corporate earnings news in Europe has been encouraging.
Europe Equity (including the UK)	Neutral	Within equities, we maintain our overweight to Japanese equities. Although there may be short-term market volatility following the devastating earthquake and tsunami, we believe this offers an attractive opportunity as the current price-to-earnings ratio is still trading far below the historic average.
Japan Equity	Positive	From a macroeconomic perspective, the outlook remains generally positive with strength in both the manufacturing and consumer sectors. However, from a valuation perspective, market prices have largely reflected the positive news-flow and the concern over monetary tightening has fuelled market volatility.
Asia ex-Japan Equity	Neutral	

Global Emerging Markets	Neutral	Emerging countries are likely to continue to lead the economic recovery, due to robust domestic consumption and strong intra-regional trade. That said, like developed markets, emerging market equities are exposed to volatility stemming from the question marks around the sustainability of the global economic recovery, exacerbated by the monetary tightening cycle that has already begun in a number of key emerging economies. The economic performance of Latin American countries remains strong and earnings growth estimates for 2011 look reasonable. Nonetheless, the good news seems to be well reflected in market prices and relative valuation measures show no strong signals. We, therefore, retain our neutral stance.
Latin America Equity	Neutral	Given the political unrest within the region, in the short-term we expect volatility to persist affecting the overall performance. The investment potential will be largely dependent on oil prices and supply uncertainties.
Middle East Equity	Neutral	Manufacturing data has varied within the different countries. Weak labour markets, high levels of government debt and ongoing concerns about eurozone debt are weighing on the outlook for the broader region. However, at a country level, we favour Russian equities. Russia's economic activity has been encouraging, while valuations for Russian equities are attractive in both absolute and relative terms.
Eastern Europe Equity	Neutral	

FIXED INCOME

US Government Bonds	Negative	<p>Excess capacity in developed markets and the commitment of the Fed to remain accommodative are generally supportive for low yields. However, despite the recent rise in yields, the market is still offering little value relative to history and, downside risks remain. Within fixed income, we prefer to own corporate debt, where we see greater total return opportunities.</p> <p>We have a negative stance on eurozone government bonds relative to cash. This is due to uncertainties regarding the economic health of eurozone peripheral countries. In addition, valuations of these bonds do not look particularly attractive; they offer limited protection against negative surprises.</p> <p>Strong corporate earnings results, the view that major central banks will keep interest rates low and strong demand for yield have boosted investment grade corporate bonds. With momentum likely to remain positive, we continue to be positive on the asset class.</p> <p>High yield bonds continue to look attractive on a total return basis. We have retained our positive view on the asset class given better-than-expected corporate results, declining default rates and growing expectations that interest rates could remain at low levels due to global economic growth uncertainties.</p>
Euro Government Bonds	Negative	
Investment Grade Corporate	Positive	
High Yield	Positive	

**OTHER
INVESTMENTS**

Sovereign US dollar-denominated Emerging Markets Debt	Neutral	While sovereign US dollar-denominated emerging market debt continues to look less attractive on valuation grounds than developed market corporate debt, and high yield in particular – they remain more attractive relative to government bonds.
Global Developed Inflation-linked Bonds	Negative	The sell-off in nominal bonds makes the global inflation-linked bond market more expensive by comparison.
Oil	Between the range of US\$90 to US\$110 per barrel	We have increased our forecast price range to US\$90-US\$110 per barrel, as demand is increasing, in line with the global growth recovery. In addition, unrest in the MENA region is creating supply uncertainty.
Gold	Neutral Between the range of US\$1,250 to US\$1,400 per troy ounce	We maintain our neutral stance on gold. Quantitative easing combined with ongoing macroeconomic uncertainty, remain supportive factors for this precious metal. That said, economic fundamentals continued to improve in many economies globally, suggesting the economic recovery is making good progress. Balancing these factors, we expect gold will trade in a between a range of US\$1,250 to US\$1,400 per troy ounce in the near-term.

CURRENCY

Commercial Real Estate (unlisted markets)	Neutral	Despite generally weak occupier markets, demand for prime investments in core markets in the US and Europe has increased and is expected to continue to rise in the short-term. Whilst some opportunities exist, we remain cautious for these markets overall. More positive economic growth in Asia Pacific is expected to be largely off-set by large development pipelines in key markets in China, India and Singapore, and wide regional variations remain. UK property yields remain above our view of fair value and significantly higher than gilt yields. However, short-term performance is expected to be muted, largely due to subdued occupier markets. Valuation indicators are not sending any clear signals at present. We see both event-driven and sentiment-driven risks contributing to ongoing volatility. We thus continue to have a neutral view on currency exposures.
Euro, British pound sterling, Japanese yen and the US dollar	Neutral	

*within the broad asset class

Summary:

Overall, we have maintained a moderately overweight position in global equities relative to both government bonds and cash. Within the context of developed market equities, we remain moderately positive on Japan. Although the earthquake will have a negative short-term economic impact, we continue to see valuations and policy support as a favourable backdrop for Japanese equities. Within emerging market equities, our favoured market is still Russia based on valuations and encouraging macroeconomic performance.

In fixed income, we have a negative view on government bonds relative to cash, although less pronounced compared to the preceding month. We have a positive stance on corporate debt – particularly high yield. Positives for corporate bonds include attractive valuations and favourable issuer fundamentals. Our central

economic scenario is for slow but positive growth in the major developed markets, a backdrop that is typically positive for credit markets.

With regard to the four major developed market currencies, it is likely that heightened volatility will continue. Valuation measures are not currently providing strong signals and we therefore have a neutral stance on currency positions.

Macro Assessment

macroeconomic picture continued to improve in developed economies (notably in the US) while activity in emerging economies is still strong. However, risk remains.

US

US data continued to suggest a solid recovery in domestic economic activity

- The ISM Manufacturing index came in at 60.4 in April, above the consensus forecast, underscoring solid expansion of the sector. Industrial production growth was robust as well, at 0.8% month-on-month in March.
- US labour data was mixed, with US non-farm payrolls rising above the consensus estimate, at 244,000, however the unemployment rate unexpectedly rose, to 9% in April.
- Nevertheless, consumer-related news-flow was disappointing. Retail sales were softer in March, as advanced retail sales growth moderated to 0.4% month-on-month, from 1.1% in February.
- Furthermore, sentiment among US consumers remained fragile. The University of Michigan Consumer Confidence was still well off its February 2011 high, at 69.8 in April, underscoring household concerns over rising inflation on their budgets.
- Also weighing on the outlook for the US is the Standard & Poor's downgrade of the US long-term sovereign debt outlook from stable to negative. This move served as a strong warning signal regarding the health of US public finances.

Europe ex-UK

The economic picture was fairly mixed in April, despite signs that the economic recovery was still ongoing

- PMI indices showed positive readings in April. The manufacturing index came in at 58.0, surprising on the upside, while the services index was in line with expectation at 56.6, after jumping to 57.2 in March.
- Nevertheless, the situation in labour markets and consumer activity was less encouraging. Eurozone unemployment was unchanged in March, at 9.9%. Furthermore, consumer confidence dropped below the consensus forecast, to -11.6 in April.
- Also weighing on the region's outlook, the economic performance of the larger economies of Germany and France continued to contrast with the situation in the peripheral countries.
- Portugal was the third nation within the eurozone to request financial aid from the European Union and International Monetary Fund, while Ireland and Greece continued to cause concern, as economic data remained particularly depressed, fuelling speculation that both countries may have to restructure their debt.

UK

The UK economic news-flow showed some signs of slowdown

- Major indicators of economic activity continued to show progress in the recovery, but a slowdown was more evident.
- For example, the Manufacturing PMI index softened further, from 56.7 in

March to 54.6 in April, while industrial production declined by 1.2% month-on-month in February, leaving the year-on-year rate of change at 2.4%.

- On the positive side, the PMI Services index jumped from 52.6 to 57.1 in April, well above the consensus forecast, while consumer confidence improved rising to 44 in March, from 39 in February.
- Labour market data was also encouraging, with the unemployment rate unexpectedly falling in February, to 7.8%. That said jobless claims were disappointing, rising in March.
- Overall, high inflation combined with stagnant wage growth (weekly earnings at 2.0% year-on-year in February) is not a positive mixture for consumption.

Japan

Too early to assess the full economic impact of the earthquake

- The impact of the earthquake on the economy is slowly starting to show in data releases.
- Retail sales took a hit in March and declined by 8.5% year-on-year, the biggest fall in 13 years, while industrial production also dropped by 15.3% month-on-month against +1.8% month-on-month in February.
- In the short-term, it is expected that demand and supply shocks, such as the suspended production, destruction of infrastructure, as well as deteriorating consumer confidence will dampen growth numbers in the near term. Against this backdrop, the Consensus Economics forecast for 2011 GDP was revised down sharply, to 0.3% from 1.4%.
- However, the 2012 Consensus Economics forecast for GDP growth was raised quite sharply, from 2.1% to 2.7%, in recognition of the upcoming government reconstruction efforts.
- The Bank of Japan remains supportive of the reconstruction effort. The central bank maintained monthly government bond purchases at 1.8 trillion yen and the asset purchase fund and credit-loan programme remained unchanged at 10 trillion yen and 30 trillion yen respectively. In addition, the key overnight rate was held at zero to 0.1%.

Emerging Markets

Emerging markets continue to be the engine of global economic growth, with strong economic activity across the region, despite ongoing monetary tightening

- Exports rebounded in March across a number of emerging countries. In particular, China's growth in exports came in at 35.8% year-on-year, well above the consensus expectation.
- A similar trend was notable in several other countries across Asia, Eastern Europe and Latin America.
- Manufacturing and industrial activity remained buoyant in emerging markets (EM), as suggested by ongoing positive readings for PMI manufacturing indices and industrial production for the BRIC countries.
- Furthermore, consumption remains a key driver of growth in EM and stronger than in developed economies.
- In Russia, retail sales surprised on the upside, coming at 4.8% year-on-year in March, against 3.4% year-on-year for the consensus. The good news was also reinforced by a fall in the unemployment rate in March, to 7.1%.
- In addition to Russia, there continues to be encouraging data coming from the broader Eastern European region. Retail sales in Poland and the Czech Republic were particularly strong in February, at +6.5% year-on-year and +12.2% year-on-year respectively.

Equity Markets

Global Developed Markets:

- Liquidity is expected to remain a positive factor for equity markets in general, given central bank stimulus. In addition, the US announced that it would continue to maintain its balance sheet by reinvesting proceeds of maturing mortgage-backed securities and Treasury holdings after the second wave of quantitative easing expires at the end of June.
- Despite modestly higher levels of inflation in developed nations, central banks are likely to maintain accommodative monetary policies in 2011 and increase rates only gradually, if necessary.
- US Federal Reserve Chairman Ben Bernanke defined the Fed's promise to keep rates low for an "extended period" to mean that they would not be raised for at least "a couple" of central bank meetings.
- Although it recognises that "inflation has picked up in recent months," the Fed reiterated that the recent rally in energy and commodity prices was expected to be "transitory".
- Valuations in all major equity markets are at undemanding levels, and macroeconomic data is supportive.
- Therefore, as the positive backdrop for equities is still applicable, we maintain a modest overweight position in equities against cash and government bonds.

US:

- The economy continues to regain strength in the US, which is supportive of our central scenario for growth and equities.
- However, lacklustre consumer sentiment continues to be a concern for the sustainability of growth in the medium-term.
- The earnings outlook for US equities remains supportive. Companies continued to report strong results, whilst expectations for US earnings growth are sound, at 15.2% for 2011 and 13.7% for 2012.
- From a valuation perspective, equities continue to look attractive, particularly when compared to government bonds and cash.
- Furthermore, monetary policy is still accommodative in the US, despite acknowledgement of improving economic activity and recently rising inflation.
- Nevertheless, there continues to be elevated risks around our positive scenario, in particular, the ongoing unrest in the MENA region, its potential impact on the oil price and hence inflation.
- Overall, we maintain our preference for US and other equity markets relative to government bonds and cash.

Europe:

- Although peripheral eurozone issues remain a concern, overall, economic activity has improved in both the UK and the Eurozone.
- In the UK, economic growth moved back into positive territory in the first quarter of 2011, coming in at 0.5% quarter-on-quarter, meeting expectations. We continue to expect moderate growth in 2011 in both the UK and eurozone.
- From a valuation perspective, Eurozone and UK equities are trading at reasonably undemanding levels, particularly relative to government bonds and cash, with their 12-month forward price / earnings ratios at 10.2 and 9.9 respectively.
- In addition, although the European Central Bank has raised rates, our central view is still for rates to remain broadly accommodative in 2011 due to the potential impact on fragile growth in the region.
- Therefore, we maintain a modest overweight position in equities against cash and government bonds.

Japan:

- Although we can expect news in the immediate weeks to remain negative as the impact of the earthquake passes through to economic data releases, we believe that the market has priced in these effects and as such, the impact on equity market performance may not be significant.
- We expect the central bank to continue to provide necessary liquidity to the financial system and reconstruction efforts.
- In recognition of the potential reconstruction benefits, the International Monetary Fund has revised up its 2012 economic growth forecast for Japan to 2.1%, while revising down its 2011 growth numbers
- In terms of valuation, Japanese equities are trading at a 12-month forward price earnings ratio of 12.9 xs as of the end of April, well below the historic average.
- We maintain our positive stance on equities relative to government bonds. Within developed equities, we moderately favour Japan. The medium-term outlook remains positive thanks to policy support from the central bank and the potential stimulatory effects of reconstruction.

Global Emerging Markets:

- Valuations for emerging markets increased during the month. Based on a 12-month forward price-to-earnings measure, valuations moved to 10.9 xs from 10.5 xs. At the current level, valuations are still reasonable compared with history.
- We maintain our central scenario of a moderate global recovery, led by emerging markets, although the current oil price and in particular the speed of its increase could have a negative impact on global growth.
- Given valuation levels and our central macroeconomic scenario, we maintain a mild preference towards equities.
- At a country level, we continue to favour Russian equities relative to other emerging markets. The Russian equity market continued to outperform the broader emerging markets universe during April. Macroeconomic data remains supportive, while the recent increase in commodity prices could give rise to positive company earnings surprises.

Asia ex-Japan:

- Despite monetary tightening, most of the Asian countries managed to maintain strong growth, stronger than that in other emerging countries. We expect that monetary tightening will continue as inflation remains elevated with risk of further increase due to with higher oil and commodity prices. This month, the People's Bank of China raised the bank reserve requirement by 50 basis points and the main interest rate by 0.25% in response to higher inflation.
- Earnings growth forecasts for 2011 are at good level, at 15.4%, which should be achievable given the growth outlook.
- In terms of valuations, Asia ex-Japan equities were trading at a 12-month forward price earnings ratio of 12.2 xs at the end of April, which is still reasonable as compared to other markets and its own history.
- Overall, we maintain our preference for equities versus government bonds and cash, and expect the region to perform in line with peers.

Latin America:

- The economic performance of Latin American countries remains strong and earnings growth estimates for 2011 look encouraging and in line with our assessment of the business and consumption environment globally.
- Having said that, the good news seems to be reflected in market prices and relative valuation measures show no strong signals.

Middle East:

- The situation in the Middle East and North Africa remained a concern.
- Libyan oil output has slumped as the conflict between its government and insurgents forced major oil companies there to suspend operations and evacuate staff.
- We continue to monitor events in the region very carefully to assess the impact on oil supply and prices.
- A long-lasting increase in oil prices combined with deterioration in oil supply is likely to be detrimental to economic growth. So far, though, this is not our central scenario.

Eastern Europe:

- In Eastern Europe, the data for Russia was more buoyant. Retail sales came in at 4.8% year-on-year in March against a consensus of 3.4% year-on-year. The good news was also reinforced by a fall in the unemployment rate in March, to 7.1%, while the country's exports grew 27.7% year-on-year in March, against 11.6% a month earlier.
- At the country level, we continue to like Russian equities relative to other emerging markets. Macroeconomic data remains supportive, while the recent increase in commodity prices (oil in particular) has been an important factor in the rally in Russian equities. In addition, we continue to think valuations are attractive on a relative basis.

Fixed Income

US dollar Government Bonds:

- Overall, the tone of the latest Federal Open Market Committee statement was dovish and reaffirms our view of accommodative monetary policy in developed nations, which remains supportive for risky assets.
- Given the lack of significant domestic inflationary threat in the US and slow improvements in employment, we concur with this view and expect monetary policy to remain accommodative, with the Federal funds rate on hold for the remainder of the year.
- Although, the latest Federal Open Market Committee statement may be beneficial for US Treasuries in the short-term, we remain cautious on government bonds overall as fiscal issues in the US continue to weigh on the asset class.
- Overall, we retain our modestly cautious view on US Treasuries relative to other asset classes. Within fixed-income markets, we continue to prefer corporate bonds, both investment grade and high yield.

Eurozone Government Bonds:

- The overriding mood in the financial markets is still volatile and uncertainties regarding the economic health of eurozone peripheral countries remain, more particularly surrounding the risk of some form of sovereign default.
- Although the bond markets of peripheral eurozone nations are priced to compensate for some risk, the final solution to the debt difficulties is not clear, making it hard to evaluate whether the pricing is sufficiently attractive.
- The European Central Bank (ECB) has been the only major developed central bank thus far to raise rates. The focus now lies on the extent of future additional rate hikes. ECB President Trichet's hawkish tone suggested that there might be more rate rises before year-end. Nevertheless, the ECB has kept its bond-purchase programme in place to support the more vulnerable peripheral nations in the region.
- Therefore, against this backdrop, we maintain a cautious outlook for eurozone

government bonds against cash. Overall, within fixed income, our preference remains for corporate rather than sovereign debt.

Investment Grade Corporate:

- Economic activity displayed positive momentum in April, particularly in the US, providing a positive backdrop for corporate bonds, as this is generally favourable for company earnings.
- Low interest rates are likely to continue to encourage investors to seek additional yield, which should be supportive for corporate bonds. However, current spread levels, albeit attractive on a stand-alone basis, do not provide much cushion should government bond yields rise.
- Therefore against this backdrop, we continue to prefer investment grade corporate bonds relative to government bonds, although within credit we favour high-yield bonds more, as their extra yield offers more protection should government bond yields rise.

High Yield:

- Economic activity continues to display positive momentum across the major developed economies, and particularly in the US, where both recent employment data and the latest ISM manufacturing data have beaten expectations.
- While our tactical preference for high yield corporate bonds has continued to prove beneficial, we recognize that valuations are not as attractive as when we initiated our positive view on high yield bonds and therefore that there is less of a cushion against potential negative news.
- However, we think high yield credit spreads still have potential to tighten over the coming months. This view reflects our continued expectation that the economic recovery will prove durable, monetary policy will remain accommodative, and fund flows will continue to be supportive.
- According to rating agency Moody's, the trailing 12-month global high yield default rate dropped further to 2.6% in March compared to 11.0% at the same time last year, reinforcing our positive outlook on credit and particularly high yield.
- Data releases continue to be consistent with this view and overall, we maintain our preference for high yield bonds.

Sovereign US dollar-denominated Emerging Markets:

- The level of spread continues to be low by historic standards, partially reflecting the improved fiscal and economic situation in emerging markets.
- However, the current yield at 5.6% appears less attractive particularly compared with the yield of global high yield bonds at 7.9%.
- We continue to prefer developed market corporate and high yield debt to US dollar denominated emerging market sovereign debt, on valuation grounds since the latter has a better risk-reward profile.

Global Inflation-Linked Bonds:

- In developed economies, inflation is expected to be relatively contained in the near-term, as high unemployment and tighter fiscal policies are likely to weigh on growth.
- The recent rise in nominal bonds yields makes the global inflation-linked bond market more expensive relative to nominals and we retain an underweight stance.

Other Investments

Oil:

- The oil price increased from US\$106.7 a barrel at the end of March to US\$113.9/bbl at the end of April.
- Global crude oil demand continued to strengthen, rising by 3.7% year-on-year in March.
- Anticipation of higher Japanese oil use for power regeneration and reconstruction following the March earthquake has offset downward adjustments to non-Organisation for Economic Cooperation and Development demand.
- The pick-up in demand and political turmoil in the Middle East and North Africa has put upward pressure on the oil price. We expect oil to trade in a range, and have moved this range up to US\$90-110/bbl on a 6- to 12-month view.

Gold:

- Actions by the US Federal Reserve are likely to continue to provide liquidity and potentially weaken the US dollar further, both of which are likely to drive commodity prices, including gold, higher.
- Increased inflationary risks are adding to the attractiveness of holding the metal as well.
- However, some factors remain unsupportive, such as rising interest rates outside the US, as has been seen in some developing economies.
- While we are not fundamentally positive on gold on a medium to long-term basis, we recognise over the short-term this can act as an effective diversification tool in portfolios.

Commercial Real Estate (unlisted):

- The UK remains our preferred market over the medium to long-term due to the yield level, which, although lower than last summer, sufficiently prices in the weak occupier market.
- Asia Pacific has the strongest rental growth prospects, particularly in the short-term, although recent strong capital value growth has reduced yields to a less attractive level, with the potential for a correction in values over the medium-to-long-term.
- In the US, despite weak occupier markets, pricing for prime assets in top-tier markets, such as New York and Washington D.C., has increased rapidly, and cap rates are back to pre-crisis levels. This has reduced their relative attractiveness. However, there are significant regional differences, and pricing for other segments of the market remains subdued. Selected opportunities may appear as demand broadens from its current narrow focus.
- In the eurozone, capital values generally remain expensive on a relative basis, following a smaller peak to trough correction compared with other regions. However, there are significant country and local variations within the region, and we expect stock specific opportunities to emerge.

Currency

- Although interest rate differentials favour euro over US dollar, the fiscal difficulties of the peripheral European countries are likely to persist for a considerable period of time and have the potential to become a negative factor for the euro. Hence there are significant but opposing factors relevant to the future path of the euro.
- The market continues to believe that the start of the UK interest rate tightening cycle will be sooner than we expect. Coupled with anaemic UK

growth, this suggests current GBP strength may be short lived. Hence, from a fundamental perspective, there is not a clear trend.

- We continue to believe emerging-market currencies will strengthen relative to those of developed markets based on the higher growth prospects of emerging regions and, at least currently, rising interest rates.
- Overall, we continue to favour EM currencies long-term and do not see a lasting trend among EUR/USD/GBP on fundamental grounds.

Long-term Investment Outlook (three to five years)

Asset class	Current View	Reasoning
Developed Market Equities	Positive	Average rate of growth somewhat subdued in the developed world. Yet exposure to higher growth areas like emerging markets will benefit earnings growth and dividend growth and are likely to keep average nominal returns at high single digit levels.
Emerging Market Equities	Positive	Expected to outperform developed market equities thanks to a favourable structural backdrop including improved fiscal management and trade balances, labour force expansion and rapid urbanisation.
Developed Market Sovereign Bonds	Negative	Comparatively low level of yield and issues around public debt are likely to keep average returns relatively subdued
Developed Markets Credit	Positive	The level of spread continues to be attractive on a historical basis and corporate balance sheets in developed markets are generally in good shape. This is likely to keep average return for credit assets above respective government bonds.
High Yield	Positive	The level of spread continues to be attractive on a historical basis and corporate balance sheets in developed markets are generally in good shape. This is likely to keep average return for high yield credit assets above respective government bonds.
Emerging Market Sovereign Debt	Positive	Structural improvements such as improved fiscal management and trade balances, labour force expansion and rapid urbanisation along with reasonable valuation levels are likely to lead to outperformance of emerging market debt relative to cash and developed market sovereign debt.
Developed Market Inflation-linked bonds	Neutral	Inflation expectations are likely to remain contained due to subdued growth in developed markets. In addition, independent central banks are focused on keeping price pressures under control. However, if higher inflation in emerging markets is not dealt with effectively, it could feed through to developed markets over the medium-term.
Commodities	Positive	Growth in emerging markets likely to remain an element of support for this asset class.

Developed Cash Rates

Negative

Subdued economic growth and stimulus measures are likely to keep rates at low levels for the foreseeable future

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