A balancing act
Outlook 2020
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Important Information

Disclaimer

All data in this document is as of 30 November 2019 unless otherwise specified.
A balancing act

2019 was a very good year for investors. Our global and Asia-focused tactical asset allocation models have generated returns of 12.3% and 12.1%, respectively, since we published our 2019 Outlook (A Year to Prepare and React, 10 December 2018). Global equities, in particular, had a very impressive year, rising over 20%.

As we assess the possible outlook for 2020, we are often faced with many factors to balance against each other. Stabilising growth, recovering corporate earnings and very loose monetary policies are clearly supportive factors for equities. On the other hand, valuations across equity and bond assets (especially in the US) are a likely constraint that could be expected to limit the quantum of gains. Looking further into the year, a significant fiscal stimulus in the US and/or Europe could potentially accelerate equity market gains while the US political cycle and geopolitical concerns, more generally, should be a drag on performance.

On balance, we continue to expect equities to outperform other asset classes in 2020, especially in the first half of the year. Within this, we have a preference for the Euro area and US markets. For bonds, yields are clearly lower than they were a year ago. This more expensive starting point means that returns will most probably struggle to match those seen in 2019. However, with monetary policies likely to remain very loose in 2020, and with the USD expect to weaken by around 5%, we anticipate the search for yield to guide people towards the attractive yields in Emerging Markets. These same factors, also mean multi-asset income strategies have a good probability of performing well in 2020.

Alexis Calla
Chief Investment Officer
Chair of the Global Investment Committee
Our **investment philosophy** starts with the idea that diversity of perspectives, views and decision-makers is crucial when it comes to countering many of the decision-making biases all investors face. We gather as many views as possible from leading investment banks, independent research houses, central banks, asset managers and international organisations such as the IMF, World Bank and Bank of International Settlements. A sentiment analysis of the language used in the different cross-asset 2020 outlooks from these multiple sources provides an interesting insight and further supports our ‘balancing act’ theme: interestingly, 48% of the words suggestive of sentiment were bullish in nature, 40% were bearish negative while 12% were talking about potential risks (see the wordmap illustration below).

What you will see as you go through this publication is a small selection of some of the diverse views and factors that our Global Investment Committee (GIC) considered before coming to its conclusions for 2020. A simple, but powerful, way to organise these perspectives is to present them in tables which balance facts and factors that either support a conclusion or oppose it. You will find many such tables in this 2020 Outlook. They are merely a taste of our process as many of the tables actually used by the GIC are full A3 pages of different perspectives contained in the rich and diverse pool of views we have access to.

Another thing we have also done this year is to expose on a standalone basis some of the different approaches that we consider and combine as part of our process. These include sophisticated quantitative methodologies to try to determine where we are in the economic cycle and what this means for potential returns and ranking of asset classes, techniques to measure the probability of a short term market reversal, as well as technical analysis perspectives (see pages 22-26).

Finally, as 2019 was the year where many sustainably issues came to the forefront, we discuss the rise of ESG investing and suggest ways to get started (see pages 74-75).

When it comes to investing, many can give you factual information or pieces of knowledge you are missing. Some may give you the individual opinion of their cadre of analysts. For us at Standard Chartered Bank, it is all about helping you decide better, by (1) helping you integrate the information and opinions that you may have received with the rich and diverse pool of perspectives we constantly gather and (2) sharing the tools and approaches we use to reduce as much as possible the decision biases that affect all investors. This is what has been driving the construct of this 2020 investment outlook.

We wish you happy holidays and a successful year of investing in 2020.
Key themes: Cross-Asset

- Equities, led by the Euro area and the US, to outperform bonds and cash
- EM bonds (both USD & local currency) and Asia USD bonds to outperform other bonds
- USD to weaken; EUR, GBP, INR likely to be biggest beneficiaries of this weakness

Starting 2020 with some optimism

Over the next 6-12 months, our Global Investment Committee expects equities (led by the US and Euro area) to outperform bonds. Emerging Market (EM) bonds should outperform Developed Market (DM) bonds and the US Dollar should weaken.

Ever-present event risks and a long-in-the-tooth economic cycle mean taking these exposures within a balanced, well-diversified investment allocation, rather than on a standalone basis, remains paramount. We continue to see gold as an attractive long-term counterweight to risky assets.

After a late-summer scare in 2019, we believe economic growth and earnings data will stabilise, supporting equities and corporate bonds. In our assessment, the Euro area has the most room for a positive growth surprise given how pessimistic expectations are.

We expect major central banks to either stay on hold or maintain a bias towards easing policy further, supporting growth. Most major economies are likely to offer some form of fiscal stimulus, though none are likely to trigger a major upside surprise given already-significant deficits (such as the US) or legal constraints (in Europe). In the UK, we expect Brexit to be resolved with a deal relatively early in the year, a view reinforced by the recent UK election outcome.
A lot to continue worrying about

There continues to be plenty for the pessimistic investor to worry about: (i) Last year’s focus on broad geopolitical risks is likely to morph into a greater focus on US domestic political risks as US presidential elections kick off in 2020; (ii) Questions over US-China trade relations are likely to persist; (iii) Finally, worries of an abrupt end to the US business cycle will continue to loom over markets.

We do not downplay any of these risks, but instead have incorporated them into our views. First, our reasoning balances these risks against the historical experience of very strong late-cycle returns and offers the perspective of seeing 2019 as an unfinished rally. Second, we concede the path is unlikely to be smooth. Third, we see the key factors supporting our bullish outlook as being much stronger in the first half of the year, but potentially receding as 2020 matures.

The first point drives our preference for equities over bonds, particularly if the Fed supports a rise in USD liquidity by expanding its balance sheet. The second and third is why we suggest a balanced, diversified approach.

Downward pressure on USD to gather pace

We expect the USD to weaken over the coming 12 months. Interest rate differentials moved against the USD for most of 2019, but thus far this has failed to weaken the currency. We believe USD liquidity has been the missing ingredient. Tight liquidity supported the USD in 2019, but Fed efforts to avoid a repeat of the spike in overnight borrowing rates, arguably as a result of low interbank liquidity, means more USD liquidity should be available in 2020. This should finally start a modest decline in the USD.

Within currency markets, we expect Developed Market currencies (mainly the EUR and GBP) to be the biggest beneficiaries of a weaker Dollar, even if the most significant impact is likely to be on Emerging Market assets, which have a track record of doing well in USD-weak environments. We prefer implementing this weak USD/stronger EM theme via bonds rather than equities, a reflection of EM bonds’ more attractive fundamentals and our expectation of a continued environment favouring income-oriented assets.

Rise in US Treasury yields likely contained

Foreseeing a growth rebound inevitably raises the question of whether it would push US bond yields higher, potentially to the point where it begins to choke the recovery itself. We see this as unlikely, both because it would require a notable rebound in US inflation, but also because it would require the growth rebound to be far stronger than our expectations. Hence, while we see 10-year yields crossing above 2%, we expect the size of the move to be relatively muted.

We do expect the US yield curve (which is the gap between long- and short-term bond yields) to widen (steepen). This has two implications – in the equities space, this should be positive for financials. In the bonds space, this should result in risk/reward improving for longer-maturity bonds at some point in 2020.

Fig. 3 Current valuations unlikely to hold back equities from outperforming bonds…

US equities earnings yield vs. US Treasury 10-year yield

Source: Bloomberg, Standard Chartered

Fig. 4 ...especially if US Treasury yields remain rangebound amid tepid inflation expectations

US 10-yr Treasuries vs. inflation expectations

Source: Bloomberg, Standard Chartered
The Euro area and the US should outperform within equities

Within equities, we prefer the Euro area and the US globally, and Chinese (offshore), Indian and South Korean equities in Asia ex-Japan.

In the Euro area, we see potential for an upside growth surprise relative to consensus. Valuations remain inexpensive relative to the US as the region lagged both global and US equity markets through the 2019 rally. Finally, ECB policy is as supportive as it has ever been and the possibility of a fiscal surprise is increasing.

In the US, we see room for both economic and earnings data to stabilise, or improve, amid contained bond yields and a weaker USD, even if equity valuations are not compelling on their own. We are also mindful of US equities’ reasonably strong track record of outperforming global equities in late-cycle environments.

In Asia ex-Japan, we favour China (offshore), India and South Korea equity markets. China and South Korea equities could significantly outperform the region should US-China trade tensions cool or at least not escalate further. Indian and Chinese equities should also benefit from policymaker efforts to support domestic growth.

EM bonds should outperform their DM counterparts

Within bonds, we expect Emerging Markets (EM) bonds, broadly, to outperform their Developed Market (DM) peers across both USD- and local currency-denominated bonds.

Across EM government bonds, USD bonds are still likely to outperform, in our assessment. The absolute level of their yields remains attractive in a still-low yield world, their valuations allow for further price gains and this asset class’ highly diversified nature continues to help shield against idiosyncratic risk (such as the political uncertainty in Chile, for example).

In addition, our increasingly bearish USD outlook improves the outlook for EM local currency bonds. Their yield remains attractive, as it has been for much of the last two years. However, what has changed is the EM FX outlook. With FX movements having been almost as important a driver of returns as the yield for local currency bonds, we believe a weaker Dollar (or even a stable Dollar) significantly improves the risk/reward for EM local currency government bonds.

We also favour Asia USD bonds. While their headline yield is less attractive than EM government bonds, the asset class continues to be less volatile than its DM peers. This makes for a very attractive risk/reward trade-off, in our view.

Finally, within DMs, it is difficult to ignore the level of yield offered in DM HY bonds. However, we believe this high level is offset by the risk of rising defaults, particularly in the US energy sector, and this could result in their total returns, net of defaults, lagging those in EM bonds.
Key asset class views

Source: Standard Chartered Global Investment Committee
Legend: ▲ Most preferred   ▼ Less preferred   ◆ Core holding

Key themes

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<thead>
<tr>
<th>Likely out-performers</th>
<th>Likely under-performers</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Global growth to stabilise</strong></td>
<td>Global equities</td>
</tr>
<tr>
<td><strong>USD to weaken</strong></td>
<td>EUR, GBP, INR, EM bonds</td>
</tr>
<tr>
<td><strong>Treasury yields to stay capped</strong></td>
<td>• Multi-asset income strategies</td>
</tr>
<tr>
<td><strong>Equities: DM to outperform EM</strong></td>
<td>• High dividend yield equities</td>
</tr>
<tr>
<td><strong>Equity sectors: Adding financials</strong></td>
<td>US, Euro area equities</td>
</tr>
<tr>
<td><strong>Bonds: EM to outperform DM</strong></td>
<td>• US financials, technology</td>
</tr>
<tr>
<td></td>
<td>• Euro area financials, healthcare</td>
</tr>
<tr>
<td></td>
<td>• China consumer staples, discretionary</td>
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<td></td>
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<tr>
<td><strong>Geopolitics vs. domestic politics</strong></td>
<td>• Equity long/short strategies</td>
</tr>
<tr>
<td></td>
<td>• Gold</td>
</tr>
</tbody>
</table>

Source: Standard Chartered Global Investment Committee
From geopolitics to politics

US presidential election race a key theme in 2020

Much of the recent election focus has been on the Democratic Party’s nomination of a presidential candidate. Recent polls and betting markets currently place Joe Biden ahead of competitors within the Democratic party to win this nomination. The same data suggests the chances of an Elizabeth Warren win have fallen considerably since they peaked in Q3 (see Fig. 7).

Warren’s intended policy agenda (which includes higher taxes and wages, and greater competition) is often perceived as posing downside risks to US equity markets from current levels given the immediate earnings and margin implications. Joe Biden’s stated economic agenda, on the other hand, is perceived as more neutral.

The first key date in the Democratic Party’s election process is February 3 (Iowa Caucus), though March 3 (‘Super Tuesday’ with Primaries in at least 13 states) is likely to be the crucial date.

Once the process to elect a Democratic presidential candidate is complete, the focus shifts to the US presidential election itself. Here, the historical data stands in the incumbent’s favour. The re-election rate of incumbent presidents sits at over 70% since 1860, rising well above this level when no recessions occur around elections and falling to only about 50% in the event of significant scandals.

This historical perspective helps put in context today’s debate – on its own, the data argues Trump’s re-election chances are quite high (see Fig. 8). However, he does have to contend with impeachment efforts, a relatively low approval rating and an economy that remains finely balanced. Betting markets currently place a high probability that president Trump is re-elected in 2020.

Domestic politics focus does not mean ignoring geopolitics

Of course, a disproportionate focus on US domestic politics does not take away what is still likely to be a geopolitically busy year. We expect US relations with China, North Korea, Russia and Europe (on trade) to remain sources of temporary market volatility. In the Middle-East, we would keep a close eye on relations between key energy producers and risks to energy supply routes as these will hold the potential to push prices higher – a key risk for global growth.

In prior annual outlooks, we noted that geopolitical risks are likely to be a multi-year focus for financial markets, particularly given rising competition between the US and China in various spheres. While we try to incorporate the risks into our asset class views, we believe geopolitical risks can still trigger unexpected bouts of volatility.
Economic surprises

On the upside…
- Europe starts significant fiscal stimulus
- US growth is stronger than expected

On the downside…
- Growth fails to recover
- US-China trade relationship takes a turn for the worse
- US falls into a recession

Market surprises

On the upside…
- Earnings rebound more than expected
- USD weakens sharply
- Global USD liquidity rises sharply

On the downside…
- Contagion spreads from Latin America bond markets across EM
- Sizeable corporate or fund defaults
- EM currency crisis

What could surprise us in 2020?

Technical surprises

On the upside…
- Global equities break to a new high, accelerating gains
- USD weakens at faster pace than expected

On the downside…
- US Treasury yields break sharply higher
- USD remains stuck in its upward-trending channel

(Geo)political surprises

On the upside…
- New US administration signals support for globalisation
- Smooth Brexit conclusion

On the downside…
- US-China relationship worsens after major incident
- The UK and the EU fail to agree a post-Brexit trade agreement
- Contagion effect spreads populist protests
- Market-unfriendly outcome in US Presidential elections

What could surprise us in 2020?
Macro Overview – at a glance

**Key themes**

Our Global Investment Committee expects growth worldwide to stabilise around long-term trends and inflation to remain subdued. Monetary and fiscal stimulus are likely to extend the record US economic expansion and revive Euro area growth; China should stabilise following targeted policy stimulus and no further escalation in trade tensions, which should also be supportive for Europe and Emerging Markets. Political uncertainty around the outcome of the US presidential election is a growing risk.

**Key chart**

Renewed expansion of G4 central bank balance sheets and fiscal stimulus is likely to help extend the economic cycle

**Monetary and fiscal stimulus are likely to support global growth in 2020**

G4 central bank balance sheet and US/Euro area fiscal deficits, % of GDP

Source: Bloomberg, Standard Chartered; G4 comprises of the central banks of the US, Euro area, Japan and UK.

<table>
<thead>
<tr>
<th>Country</th>
<th>Comment</th>
<th>Growth</th>
<th>Inflation</th>
<th>Benchmark rates</th>
<th>Fiscal deficit</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>US</strong></td>
<td>Fed’s dovish policy shift and ongoing fiscal spending should stabilise growth near its long-term trend; strong job market will sustain consumption; Fed may cut rates once in 2020</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
</tr>
<tr>
<td><strong>Euro area</strong></td>
<td>Monetary and fiscal easing should support a modest growth recovery; ECB should ease further amid subdued Euro area inflation; German fiscal easing could be a potential game-changer for growth</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
</tr>
<tr>
<td><strong>China</strong></td>
<td>We expect significant, but targeted, fiscal and monetary easing to support economic growth amid external headwinds, such as trade tensions with the US</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
</tr>
<tr>
<td><strong>Japan</strong></td>
<td>External risks to the manufacturing sector and exports will be partly offset by resilient business spending due to structural factors; BoJ on hold for now, but its stance could change as growth slows further</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
</tr>
<tr>
<td><strong>UK</strong></td>
<td>PM Johnson’s new majority in parliament means a soft Brexit is likely; reduced uncertainty and a proposed fiscal stimulus could potentially revive business confidence</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
</tr>
<tr>
<td><strong>Other Emerging Markets</strong></td>
<td>Weaker USD, easier global and domestic monetary policies are likely to support the outlook; idiosyncratic country risks remain</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>○</td>
</tr>
</tbody>
</table>

Source: Standard Chartered Global Investment Committee

Legend: ○ Significant deceleration | ● Neutral | ● Significant acceleration
Accommodative policies to extend economic cycle

- Our net assessment is that accommodative Fed policy and ongoing government spending will sustain economic growth.
- A robust, albeit slowing job market, is likely to support consumption and the service sector, offsetting the impact of trade uncertainty on manufacturing sector and business investment.
- Policy uncertainty in the run-up to the US presidential election is a key risk.

Fig. 1 Will US growth accelerate in 2020?

<table>
<thead>
<tr>
<th>Supports stronger growth</th>
<th>Supports weaker growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lowest unemployment rate in five decades is likely to sustain consumer spending</td>
<td>Political and policy uncertainty ahead of the US presidential election could dampen business investment; Democrat win could raise regulatory uncertainty, undermining investment</td>
</tr>
<tr>
<td>Cheaper mortgage rates following Fed rate cuts in 2019 are supportive for the US housing sector</td>
<td>US-China trade tensions could carry on for many years, despite partial truce, dampening business investment</td>
</tr>
<tr>
<td>Crucial services sector (70% of the economy) more resilient to trade tensions</td>
<td>Sustained strength in labour markets could lift wages further, forcing the Fed to tighten policy aggressively</td>
</tr>
<tr>
<td>Higher government debt-ceiling likely to sustain fiscal spending; subdued inflation to help Fed cut rates once in 2020</td>
<td>Pace of job creation could continue to slow, impacting consumption growth and corporate investment</td>
</tr>
</tbody>
</table>

SCB’s net assessment

Source: Standard Chartered Global Investment Committee

Fig. 2 A robust job market should sustain US household confidence and consumption-driven growth

US consumer confidence index; US unemployment rate, %

Source: Bloomberg, Standard Chartered

Fig. 3 The Fed’s accommodative policy shift is likely to lift consumer and business sentiment, in turn supporting growth

US core consumer price inflation, % y/y; Fed Funds Target rate, %

Source: Bloomberg, Standard Chartered
China

More stimulus coming

Intensity and efficacy of policy stimulus will be key for growth

- China is likely to ease fiscal and monetary policies further as the government partially rolls back earlier de-leveraging policies amid external headwinds.
- However, both fiscal and monetary stimulus have had limited economic pass-through so far.
- A pick-up in the intensity and/or efficacy of fiscal and monetary policy stimulus will be key to China’s growth trajectory in 2020.

Fig. 1 Will China growth accelerate in 2020?

<table>
<thead>
<tr>
<th>Supports stronger growth</th>
<th>Supports weaker growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Further substantial fiscal and monetary stimulus in 2020 should stabilise growth and offset industrial sector deflationary pressures</td>
<td>Chinese policymakers have signalled a willingness to accept a lower growth rate, increasing downside risk</td>
</tr>
<tr>
<td>Policy-driven growth stabilisation will support the job market and social stability, sustaining domestic consumption</td>
<td>External headwinds to the manufacturing sector may cap growth. Stimulus measures have had limited economic impact, partly due to weak private sector sentiment</td>
</tr>
<tr>
<td>US-China trade tensions are unlikely to escalate in 2020, which should help stabilise the outlook</td>
<td>De-risking of the economy and maintaining prudential measures to prevent property market over-heating could weigh on growth</td>
</tr>
<tr>
<td>SCB’s net assessment</td>
<td>Monetary policy easing limited by rising food inflation</td>
</tr>
</tbody>
</table>

Source: Standard Chartered Global Investment Committee

Fig. 2 Limited economic pass-through from stimulus so far

SME credit outlook; infrastructure investment growth

Source: Bloomberg, Standard Chartered

Fig. 3 We expect the current pace of fiscal and monetary stimulus to be stepped up

Major banks’ required reserve ratio; fiscal deficit target

Source: Bloomberg, Standard Chartered
Euro area

A nascent recovery

Easing financial conditions should aid a cyclical upturn

- We expect above-consensus growth in the Euro area amid continued improvement in the job market, easy monetary policy and a still-undervalued EUR.
- A negotiated Brexit, partial US-China trade truce should help revive Euro area exports.
- ECB to ease further amid subdued inflation; steps to shield banks from negative rates should lift business confidence; German fiscal easing could be a potential game changer.

Fig. 1 Will Euro area growth accelerate in 2020?

<table>
<thead>
<tr>
<th>Supports stronger growth</th>
<th>Supports weaker growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ultra-easy ECB monetary policies should help support credit growth to households and companies</td>
<td>German manufacturing sector sentiment remains poor; risk of spilling over into the services sector of the largest Euro area economy</td>
</tr>
<tr>
<td>Consumption should remain buoyant as strong job market lifts wage growth, disposable incomes</td>
<td>Low interest rates are forcing households to save more. This could dampen consumption prospects</td>
</tr>
<tr>
<td>Some fiscal easing should boost the cyclical upturn</td>
<td>Slowdown in global trade and the protracted trade war continue to weigh on business investment decisions</td>
</tr>
<tr>
<td>A ‘soft’ Brexit should revive investment and exports to the UK</td>
<td>Regulatory constraints against significant fiscal easing in Germany will limit the probability of a significant government spending increase</td>
</tr>
</tbody>
</table>

SCB’s net assessment

Source: Standard Chartered Global Investment Committee

Our net assessment:

- Easy monetary policy, undervalued EUR should drive cyclical recovery from a low base
- Inflation should stay well below target due to structural factors
- We expect further monetary and fiscal easing in 2020

Fig. 2 Rise in Euro area credit impulse, aided by ECB easing, is likely building the base for a nascent economic recovery

Fig. 3 Rebound in Euro area investor confidence and growth expectations support our increasingly positive outlook

Source: Bloomberg, Standard Chartered
**UK**

**Light at the end of the tunnel**

**Fading Brexit risks**

- PM Johnson’s new majority implies the UK parliament is likely to approve his Brexit deal.
- A negotiated Brexit and planned fiscal stimulus could revive business confidence and investment. Completing a trade deal with the EU will now be the main source of uncertainty.
- The BoE is likely to stay on hold amid a tight job market as fiscal stimulus drives main policy.

**Fig. 1 Will UK growth accelerate in 2020?**

<table>
<thead>
<tr>
<th>Supports stronger growth</th>
<th>Supports weaker growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business and consumer sentiment to get a lift as hard-Brexit risk wanes with Johnson’s election win</td>
<td>Failure to reach an EU trade agreement ahead of 31 December 2020 deadline remains a risk</td>
</tr>
<tr>
<td>End of Brexit uncertainty has the potential to kickstart business investment, while a tight job market supports wage growth and domestic consumption</td>
<td>Tightest labour market since the 1970s could fuel wage pressures, forcing the BoE to raise rates</td>
</tr>
<tr>
<td>UK should receive the biggest boost from fiscal spending among key Developed Markets after decade of austerity</td>
<td>GBP strength, as Brexit risk fades, could dampen the near-term outlook for exports</td>
</tr>
<tr>
<td>Potential trade deals with the EU, US and Emerging Markets could ultimately drive long-term growth as Johnson shapes a trade-driven ‘new economy’</td>
<td>Brexit likely to revive referendum calls in Scotland and Northern Ireland, heightening political risks</td>
</tr>
</tbody>
</table>

**SCB’s net assessment**

![Accelerate significantly](5 4 3 2 1)

Source: Standard Chartered Global Investment Committee

**Our net assessment:**

- Growth should stabilise as focus turns to new trade agreements
- Inflation is likely to stay close to the BoE’s 2% target amid a tight job market
- A shift towards fiscal stimulus has the potential to revive the growth outlook, while the BoE stays on hold

**Fig. 2 We expect UK business confidence to rebound as the risk of a hard-Brexit recedes after the elections**

Lloyds’ UK Business Barometer

![Index](source: Bloomberg, Standard Chartered)

**Fig. 3 Easing Brexit risk is likely to turn the BoE’s focus towards a strong job market; we see low prospects for a rate cut**

- UK weekly earnings ex-bonus, % y/y; UK unemployment rate, %
- Average weekly earnings; Unemployment rate (RHS)

Source: Bloomberg, Standard Chartered
Overcoming deflation remains the policy priority

- External uncertainty is likely to continue weighing on Japan’s exports and its manufacturing sector, while a tight job market should support domestic consumption and services.
- Aging population to support sustained business investment in labour-saving technologies.
- BoJ likely to maintain an accommodative policy stance, while the government boosts fiscal spending to offset the impact of the recently-passed consumption tax hike.

Fig. 1 Will Japan growth accelerate in 2020?

<table>
<thead>
<tr>
<th>Supports stronger growth</th>
<th>Supports weaker growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strong job market to support domestic demand, limiting the impact of the consumption tax increase</td>
<td>Drag from global trade uncertainty could continue to weigh on exports, investment and the industrial sector</td>
</tr>
<tr>
<td>Government’s plans for additional stimulus measures should boost infrastructure-related public investment</td>
<td>Consumption tax increase likely to weigh on consumer spending in early part of 2020</td>
</tr>
<tr>
<td>Structural investments (e.g. in labour-saving technologies) should support business investment</td>
<td>Renewed JPY appreciation due to external uncertainty could be a headwind to exports</td>
</tr>
<tr>
<td>US decision not to impose punitive tariffs on auto imports from Japan is a relief for exporters</td>
<td></td>
</tr>
</tbody>
</table>

SCB’s net assessment

Our net assessment:

- Growth should remain below-trend (ie. well below 1%) amid external uncertainty
- Inflation should remain less than half of BoJ’s 2% target
- BoJ is likely to maintain easy monetary policy; while the government boosts fiscal spending

Fig. 2 Japan’s export-driven manufacturing sector is likely to continue to face headwinds from global trade uncertainty

Fig. 3 BoJ is likely to maintain its easy monetary policy amid Japan’s continued disinflationary trends
Emerging Markets ex-China

Brightening outlook

Easing financial conditions should support recovery

- We expect easier global/domestic monetary policies and a weaker USD to revive the outlook.
- The EM-DM growth differential is likely to increase in favour of Emerging Markets as key economies of India and Brazil rebound on the back of fiscal easing and domestic reforms.
- However, political uncertainty in some economies underscores the idiosyncratic risks in Emerging Markets.

Our net assessment:

- EM growth to be supported by easing domestic and global financial conditions
- Inflation to remain subdued amid global deflationary pressures
- Fiscal easing to be main policy driver in major markets

Fig. 1 Will Emerging Markets ex-China growth accelerate in 2020?

<table>
<thead>
<tr>
<th>Supports stronger growth</th>
<th>Supports weaker growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global policy easing, a weaker USD and partial US-China trade deal should boost EM growth</td>
<td>Structurally slowing Chinese growth could continue hurting export demand</td>
</tr>
<tr>
<td>India’s corporate tax rate cut and other fiscal stimulus measures should revive growth in 2020</td>
<td>Stronger EM currencies could offset some of the benefits of easier local policy measures</td>
</tr>
<tr>
<td>Korea’s planned record fiscal spending and Indonesia’s proposed reforms will support these Asian economies</td>
<td>Political uncertainty in some economies (Chile, Ecuador, Lebanon) creates idiosyncratic risks</td>
</tr>
<tr>
<td>Brazil’s pension reforms could boost business sentiment and structural growth outlook</td>
<td>Commodity-exporting EMs could remain under pressure if prices remain subdued</td>
</tr>
</tbody>
</table>

SCB’s net assessment

Source: Standard Chartered Global Investment Committee

Fig. 2 Most Emerging Markets are likely to maintain a sizeable fiscal deficit in 2020, which should help support their growth

Consensus 2020 fiscal deficit estimates for key Emerging Markets

Source: Bloomberg, Standard Chartered; (*) India’s estimates are for the fiscal year ending March 2021

Fig. 3 Aggregate Emerging Market growth is expected to diverge from Developed Markets amid easier financial conditions

Source: Bloomberg, Standard Chartered
Crude Oil (WTI)

Range-bound as the tug of war continues

Awaiting clarity around macro uncertainties

- We expect WTI to trade broadly in a range of USD 50-60/bbl over the next 6-12 months with the oil market’s demand-supply dynamics remaining broadly unchanged.
- Supply-side drivers are relatively balanced as non-OPEC (ex-US) supply growth is expected to offset OPEC production restraint. US shale oil production growth is likely to slow due to oil companies’ increased capital discipline and decelerating productivity improvements.
- Oil demand growth should recover modestly on the back of receding global economic uncertainty, accommodative monetary policies and additional fiscal stimulus. However, a significant revival appears unlikely.

Our net assessment:

- We expect oil prices to trade in a broad range of around USD 50-60/bbl
- This is driven by expectations of higher non-OPEC (ex-US) supply, offsetting a pick-up in global demand
- A repricing of geopolitical risk premiums and/or lingering demand weakness are risks

Fig. 1 Will the oil price rise in 2020?

<table>
<thead>
<tr>
<th>Supports bullish outlook</th>
<th>Supports bearish outlook</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global demand growth recovery given easy monetary and fiscal policies worldwide will prop up oil prices</td>
<td>OPEC members’ unwillingness to deepen or comply with cuts could negatively impact prices</td>
</tr>
<tr>
<td>US shale oil production growth is slowing on falling rig counts, driven by capital discipline and decelerating productivity</td>
<td>Non-OPEC (ex-US) supply is expected to rise</td>
</tr>
<tr>
<td>Renewed geopolitical tensions could cause a supply shock</td>
<td></td>
</tr>
</tbody>
</table>

Source: Standard Chartered Global Investment Committee

Fig. 2 Significant oil price gains unlikely as falling OPEC market share constrains ability to cut production

OPEC, US (% of market share)

Source: EIA, Refinitiv, Standard Chartered

Fig. 3 Falling US rig counts suggest slower US shale supply growth going forward

WTI (USD/bbl), US rig count (RHS)

Source: Bloomberg, Standard Chartered
Geopolitics
what to watch out for in 2020

Presidential election
Democratic nomination is a contest between Biden, Buttigieg, Warren and Sanders
Policy implications of each candidate are very different
Markets worried about Warren’s policy agenda and its implications for corporate earnings
The ongoing Trump impeachment debate could complicate matters

3 March: Super-Tuesday
End-March: Democratic nomination may be largely sealed
3 November: US Presidential election

Brexit
Conservative Party election victory suggests Brexit (finally) likely to happen
Further extension of the deadline cannot be ruled out

31 January: Deadline for an agreement
30 June: UK-EU trade deal extension deadline
31 December: Trade deal deadline

Timeline

Jan

Feb

Mar

Apr

May

Jun

Jul

Aug

Sep

Oct

Nov

Dec

11
Taiwan Presidential election
31
Deadline for Brexit
03
Super Tuesday (Democratic primaries)
30
UK-EU trade deal extension deadline
20
Hong Kong legislative council election
03
US Presidential election
31
UK trade deal deadline
21-32
G20 summit in Riyadh
Fiscal policy stimulus

German government comes under increasing pressure to ease its fiscal policy as risks of early election rise

German economic conditions will be decisive to a significant easing being implemented

Signs of a global recovery may delay the debate within the country

US-China

Continued tensions

Periodic confrontations are likely for the foreseeable future, with recent trade tensions a symptom rather than a cause

US election cycle means ‘China-bashing’ is likely to continue in 2020

China will be keen to maintain cordial US relations as it focuses on stabilising domestic growth

Taiwan’s coming election create a potential flashpoint

11 January: Taiwan Presidential election
20 September: Hong Kong legislative council election

Middle East

A prominent source of risks

US-Iran tensions are unresolved

Unrest in Iraq is growing

Increased scrutiny over Iran’s influence in the region

21-22 November: G20 summit in Riyadh

North Korea

Nuclear capability

Missile tests are likely to continue

Risk of further sanctions are growing

Global contagion likely to be limited, as in the past
Our US Equity and Bond Market Risk (EBMR) Model provides us with **3 perspectives** for 2020:

**Perspective 1: Risk**
US equity and Bond markets are not currently in a high-risk zone

**Perspective 2: Return**
Current environment is generally favourable for equities over the next 6 months

**Perspective 3: Scenarios**
Model cautions US equity and bond markets could enter a high-risk zone in Q2 2020

**How does the model work?**
Our quantitative US EBMR model is a key starting point (one of our “Outside views”) for our Global Investment Committee when it comes to determining its views on different asset classes. While we have other regional models, we emphasise this model as US markets are unmatched bellwethers for international markets.

Our US EBMR model uses sophisticated quantitative techniques to (i) derive a risk outlook for both US equity and bond markets using a range of 11 economic and market variables for equities (the equity barometer – Fig. 1) and 6 variables for bonds (the bond barometer – Fig. 2); (ii) combining the equity and bond risk scores to map the current environment to a point on the 4-stage cycle (see Fig. 3); (iii) derive, using historical occurrences of similar environments, an expected distribution of possible 6 month returns for various asset classes.

Finally, we estimate how the equity and bond barometers could evolve to help form a view on whether the environment could transition to a different stage in the future.
Perspective 1: Risk

Equity and bond inputs generally supportive for returns in the coming 6 months

Our US EBMR model classifies the market environment into 4 stages, each with different bond and equity risk profiles: (1) positive bonds and negative equities, (2) positive both bonds and equities, (3) positive equities and negative bonds and (4) negative both equities and bonds.

Our model currently indicates that we are most likely in Stage 2 of the financial market risk cycle when downside risks to both equity and bond market returns are expected to be low. With both barometers above 50, the model expects any pullback over a three-month window in US equities should not exceed 10% and any spike in the US 10-year government bond yield should not be more than 40-50bps (unless triggered by a large external shock).

The Equity Barometer has been bolstered by strong equity market momentum, expected flows from US government bonds to equity and a recovery in the US 10-year government bond yield. Fundamentals, however, are little changed with many factors like the Conference Board lagging indicator remaining supportive.

Meanwhile, the Bond Barometer is supported by slowing economic momentum, as indicated by the US PMI, housing starts and US industrial capacity utilisation, as weaker growth outlook tends to favour defensive assets such as US government bonds. A weaker inflationary signal from commodity markets also implies that interest rates are less likely to rise steeply over the near-term. However, the equity momentum component is offsetting some of these supportive signals for the bond barometer. Should equity market momentum wane, a continued deterioration in growth outlook is likely to see a re-strengthening of the bond barometer.

Fig. 1 Scores for the variables in our equity barometer

Equity Barometer (31 October 2019) = 64; higher is better

Fig. 2 Scores for the variables in our bond barometer

Bond Barometer (31 October 2019) = 57; higher is better

Source: Bloomberg, Standard Chartered
Perspective 2: Return

Stage 2 in the financial market risk cycle is generally a good environment for investors

History going back to Jan-1999 suggests equities are likely to remain the most favourable asset class under Stage 2, followed by alternative assets, bonds and gold. The chart alongside shows global assets ranked based on their historical returns under each of the four stages of the EBMR model.

Perspective 3: Scenarios

Scenarios for 2020

Both equity and bond barometers are currently above 50, and thus indicate lower downside risks across US equity and government bond markets over the next 6 months. Over this period, any pullback measured over a three-month window in the US equity market should not exceed 10%, and a spike in the 10-year government bond yield should not be more than 40-50bps.

Looking further into 2020, though, this could change. We investigate this by applying regression analysis techniques on the barometers to gauge how this may develop and, in turn, influence whether the environment moves to a different stage over the course of 2020 (see Fig. 4).

The model currently expects the stage to change around March – April 2020, when the probability of moving to Scenarios 3 and 4 would rise above 30% and 40% respectively. This would indicate increased downside risks to both bonds and equities.

Fig. 3 Equities normally deliver the best returns in Stage 2 of the cycle as identified by our quantitative model

Rank of asset class performance in the different stages of the EBMR model

Source: Standard Chartered

Fig. 4 Scenarios for 2020

Probabilities of being in different stages of the cycle

Source: Standard Chartered
Tracking market diversity

Where has diversity been falling or rising?

Improved sentiment from recent geopolitical developments and confidence in ongoing policy support has seen risk assets bounce strongly. As a result, our diversity indicator is showing a decline in market diversity for many risky assets, especially in Developed Market equities (except in the UK), as a rapid rise in prices is putting some stress on liquidity conditions.

In equity markets, we are seeing borderline low market diversity in both Japan and global dividend stocks, which suggests it might be wise not to chase the rally in these markets over the near term. Europe and the US have also seen a contraction in market diversity, but not to a level that would warrant near-term concern. Outside of equities, there is not much to see from a diversity perspective, with bond performance having been mixed since the recent rise in global bond yields.

Fractal dimension as a measure of the market’s structural diversity

Diversity plays a crucial role in our investment process, particularly the idea of structural diversity in a market at any point in time. This idea is closely related to the Fractal Market Hypothesis (FMH). Under the FMH, there are two distinct market regimes;

1. A stable market where investors with different investment horizons come together and balance each other out, thus creating ample liquidity and structural diversity.

2. An unstable market where different investors converge to a short-term investment view, leading to a market trend that is too linear, as liquidity and structural diversity dry up.

One implication of the FMH is that diversity can be used to identify which one of these two states any market is in. This would enable us to identify market trends that are more likely to persist, and those where the risk of a short-term reversal is more likely.

Fractal dimension is a way to estimate a market’s structural diversity and takes on a minimum value of 1—a diversity value of a straight line. Asset prices rarely move in straight lines, but they become more linear when structural diversity drops due to rising supply and demand imbalances. Much like a rubber band that stretches too far and breaks, the critical point of 1.25 is an estimated value of the fractal dimension when the reversal risk of an asset class rises significantly.

<table>
<thead>
<tr>
<th>Asset with low and high market diversity</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Level 1</strong></td>
</tr>
<tr>
<td>FTSE World Broad IG Bond ex-MBS Index</td>
</tr>
<tr>
<td>MSCI All Country World Index</td>
</tr>
<tr>
<td>Gold Spot</td>
</tr>
<tr>
<td>HFRX Global Hedge Fund Index</td>
</tr>
<tr>
<td><strong>Equity</strong></td>
</tr>
<tr>
<td>MSCI USA Index</td>
</tr>
<tr>
<td>MSCI Europe Index</td>
</tr>
<tr>
<td>MSCI UK Index</td>
</tr>
<tr>
<td>MSCI Japan Index</td>
</tr>
<tr>
<td>MSCI AC Asia ex-Japan Index</td>
</tr>
<tr>
<td>MSCI EM ex_Asia Index</td>
</tr>
<tr>
<td><strong>Fixed Income</strong></td>
</tr>
<tr>
<td>FTSE DM IG Sovereign Bond Index</td>
</tr>
<tr>
<td>FTSE DM IG Corporate Bond Index</td>
</tr>
<tr>
<td>Bloomberg Barclays Global High Yield Index</td>
</tr>
<tr>
<td>JPM EM Global Diversified Bond Index</td>
</tr>
<tr>
<td>JPM EM Government Local Currency Bond Index</td>
</tr>
<tr>
<td>JPM Asia Credit Index</td>
</tr>
<tr>
<td><strong>Currencies</strong></td>
</tr>
<tr>
<td>USD/CNY</td>
</tr>
<tr>
<td>USD/EUR</td>
</tr>
<tr>
<td>USD/JPY</td>
</tr>
<tr>
<td>USD/GBP</td>
</tr>
<tr>
<td>USD/AUD</td>
</tr>
<tr>
<td>USD/SGD</td>
</tr>
<tr>
<td>USD/MYR</td>
</tr>
<tr>
<td>USD/IDR</td>
</tr>
<tr>
<td>USD/INR</td>
</tr>
<tr>
<td><strong>US Treasury Yields</strong></td>
</tr>
<tr>
<td>US 10-year Treasury Yield</td>
</tr>
</tbody>
</table>

Source: Bloomberg, Standard Chartered; data as on 6 December 2019.

Legend: ○ Very low | ● Low | ● Moderate/High
Tracking market technicals

Our Global Investment Committee decision-making process actively makes use of many different perspectives it has access to, one of which is technical analysis.

**Bullish break in European equities**

After staying in a range in recent years, the MSCI Europe ex-UK index rose in November above a key horizontal trendline resistance at 155 that had held since 2015. This indicates potential for further rise in the coming weeks/months, potentially toward 185. The horizontal trendline marked the upper edge of an ascending triangle starting in 2015. The lower edge of the channel is an upward-sloping trendline from 2016. Interestingly, within the pattern, there is a complex reverse head and shoulders (H&S) pattern – the two left shoulders at the 2017 and early-2018 lows; the head at the end-2018 low; the right shoulders at the Q1-2019 and Q3-2019 lows. The reverse H&S pattern points to a rise toward 175.

Together with positive fundamentals (highlighted in the Equities section) there is a case for being bullish the region’s equities.

**S&P 500: Triangle points to further upside**

The S&P 500 index’s break in November has been similar to the MSCI Europe ex-UK index. The US benchmark’s rise above a mildly-downward sloping neckline from July triggered a bullish break from a triangle, implying a potential move toward 3,210, and 3,295 should this level break. The lower edge of the triangle configuration is an upward-sloping neckline from last August. Triangles are generally seen as being consolidation or continuation patterns (implying continuation of the prior trend following a pause) and seldom occur at the end of a move (i.e. a reversal pattern). Notwithstanding a temporary pause on overbought conditions, the strength of the recent rise raises the odds of an eventual upside in the index.

**Gold: The rally is not over**

The retreat in gold since September has raised some doubts regarding the sustainability of the one-year old rally. The recent pullback is most likely a consolidation, in our assessment, which typically takes place after sharp gains. Indeed, the recent pattern resembles a flag pattern, i.e. a consolidation pattern. Beyond the pause, there is a case for a rise toward 1,605 – the price objective of the ascending triangle from 2016 (see chart).
Bonds – at a glance

Key themes

The strong performance in 2019 across both government and corporate bonds mean they start 2020 with a lower yield and more expensive valuations than a year ago, leading us to expect lower, but still positive total returns in 2020.

Relatively more attractive valuations, expectations of global growth stabilisation and a weaker USD lead us to prefer EM bonds over DM bonds, across both government and corporate categories.

Key chart

Strong performance in 2019 mean most bond markets start 2020 at yields close to 10-year lows

Yields largely higher in Emerging Market bonds relative to their Developed Market counterparts


Preference order

EM USD government

Emerging Market (EM) USD government bonds are preferred owing to easing headwinds, the attractive yield and reasonable valuations. A sharp rebound in Treasury yields is a risk for EM bonds.

- Macro factors
- Valuation vs govt bonds
- Rates policy

Asia USD

We view Asia USD bonds as a preferred holding given their relatively high credit quality, moderate yield and defensive characteristics. A sharper than expected growth slowdown in China is a risk for Asia bonds.

- Macro factors
- Valuation vs govt bonds
- Rates policy

EM local currency

An attractive yield, easier EM central bank policies and our bearish USD outlook lead us to view EM local currency bonds as a preferred holding. Higher volatility due to currency fluctuations is a risk.

- FX Outlook
- Macro factors
- Rates policy

DM HY corporate

We view DM High Yield bonds as a core holding as their attractive yield, reasonable valuations and low interest rate sensitivity are balanced by the risk of rising defaults.

- Attractive yield
- Valuation vs govt bonds
- Credit fundamentals

DM IG corporate

We view the asset class as less preferred. In our assessment, the high credit quality is more than offset by somewhat expensive valuations, high interest rate sensitivity and increasing corporate leverage.

- Valuation vs govt bonds
- Credit fundamentals
- Macro factors

DM IG government

DM Investment Grade government bonds are less preferred. Their high credit quality is offset by the low yields they offer. A renewed growth slowdown is an upside risk for this asset class.

- Rates policy
- Macro factors
- Valuation

Source: Standard Chartered

Legend: ▲ Most preferred  ▼ Less preferred  ◆ Core holding  ○ Not supportive  ◆ Neutral  ● Supportive  □ Key driver
## Our thoughts on...

### PREFERRED

**EM USD government bonds**
- Well-balanced credit quality (+)
  - Investment Grade: 54% | High Yield: 46%
- Highly-diversified geographically (+)
  - Gives exposure to 73 countries
- Attractive yield (+)
  - Offers 5%+ yield, with reasonable valuations
- Idiosyncratic risks (-)
  - Watch event risks closely

**EM local currency bonds**
- Easy Central Bank policy (+)
  - EM Central Banks expected to cut rates further
- Attractive yield (+)
  - Offers a yield of over 5%
- EM FX tailwind (+)
  - Support likely from a weaker USD
- Higher volatility (-)
  - Volatility (~2x vs EM USD govt bonds) poses a risk

**Asia USD bonds**
- Defensive asset class (+)
  - Volatility well-contained over the past 5 years
- High credit quality (+)
  - Offers a ~4% yield for an average BBB+ credit quality
- Strong regional demand (+)
  - Well-supported by regional investors (>70% of demand)
- Concentration risk (-)
  - Nearly 60% issuers are from mainland China + Hong Kong

### CORE HOLDING

**DM high yield bonds**
- Attractive yield (+)
  - Offers ~6% yield
- Reasonable valuations (+)
  - Yield premiums in line with historical averages
- 14% allocation to energy sector (-)
  - Deteriorating energy sector credit quality a risk

### LESS PREFERRED

**DM IG government bonds**
- Low absolute yield (-)
  - Average yield of ~1%
- High interest rate sensitivity (-)
  - 1% higher yield = ~8% price decline
- Portfolio hedge (+)
  - Benefits from high credit quality during risk-off

**DM IG corporate bonds**
- Increasing corporate leverage (-)
  - Debt/EBITDA has risen to multi-year highs
- Expensive valuations (-)
  - This could limit returns
- Strong foreign demand (+)
  - USD12 trn in negative yielding bonds adds demand tailwind
What do you mean by Global Bonds, Rates and Credit?

- **Global Bonds** – A blend of G4 government and corporate investment grade bonds
- **Rates** – Government bonds denominated in their own currency driven principally by changes in interest rates
- **Credit** – Corporate bonds and foreign currency-denominated EM bonds

**Stylised asset class rankings by credit quality and volatility**

- **DM IG GOVT**
- **DM IG GOVT**
- **DM HY**
- **EM LCY**
- **EM USD GOVT**
- **Asia USD**

- Sensitive to bond yields
- Sensitive to credit spreads

**Asset return potential mapped by key drivers**

- Slowing growth
  - Benefit from:
    - DM IG GOVT
    - DM IG CORP
    - Asia USD
    - DM HY
  - Our net assessment: DM HY
  - Our net assessment: DM HY

- Stronger USD
  - Benefit from:
    - DM IG GOVT
    - DM IG CORP
    - DM HY
  - Our net assessment: DM HY
  - Our net assessment: DM HY

- Current valuations
  - Expensive valuations
    - DM IG GOVT
    - DM IG CORP
    - Asia USD
    - DM HY
    - EM USD GOVT
    - EM LCY
Developed Market Investment Grade (DM IG) government bonds

Less preferred – Low yields lead to poor risk-reward

Modestly higher yields in 2020 could lead to negative returns

- DM yields will be influenced by two opposing forces: A stabilisation in global growth should lead to modestly higher yields, while accommodative DM central bank policies should limit the upward move.
- Low yields offered by DM bonds and expensive valuations, measured by the additional yield for taking exposure to longer dated bonds, create an unattractive risk-reward.
- DM IG government bonds should not be totally ignored by investors as they offer high credit quality and serve as a hedge during periods of market volatility.

Fig. 1 Will DM IG government bonds outperform?

<table>
<thead>
<tr>
<th>Supports outperformance</th>
<th>Supports underperformance</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Fed is likely to cut rates once in 2020. The ECB is likely to ease further in 2020</td>
<td>The stabilisation of global growth and inflation should push yields modestly higher</td>
</tr>
<tr>
<td>The net supply of US Treasuries is likely to decline in 2020. Supply in Europe and Japan should remain largely unchanged</td>
<td>Reduction in geopolitical uncertainty would reduce the demand for safe-haven bonds</td>
</tr>
<tr>
<td>An unexpected global growth slowdown is an upside risk as it would lead to lower yields (and higher returns)</td>
<td>Their high interest rate sensitivity means price declines could easily outweigh the low yield on offer</td>
</tr>
</tbody>
</table>

SCB’s net assessment

Our net assessment:

- DM IG government bonds are likely to underperform global bonds
- The 10-year US Treasury yield should remain anchored around 2.0%
- The difference between 10-year and 2-year yields should increase (i.e., yield curve to steepen) for most DM bonds

Source: Standard Chartered Global Investment Committee

Fig. 2 Relatively stable inflation should help keep 10-year US government bond yield anchored around 2.0%

10-year US Treasury yield and 10-year inflation break-even (long-term inflation expectations)

Source: Bloomberg, Standard Chartered

Fig. 3 Fed rate cut and higher 10-year yield expectations should lead to a steeper yield curve

Difference between 10-year and 2-year US Treasury yields. Grey-shaded areas denote US recessions

Source: Bloomberg, Standard Chartered
Emerging Market local currency (EM LC) government bonds

Preferred holding – Key factors turning supportive

Weaker dollar should support EM local currency bond returns

- EM local currency (LC) government bonds offer an attractive yield of over 5%, albeit with higher currency volatility risk than USD-denominated bonds.
- Our bearish outlook for the USD implies a possible upside surprise from EM currency strength.
- A relatively subdued EM inflation picture should allow for a continued dovish policy stance by most EM central banks. This should, in turn, support additional price gains in EM LC bonds.

Fig. 1 Will EM LC government bonds outperform?

<table>
<thead>
<tr>
<th>Supports outperformance</th>
<th>Supports underperformance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accommodative DM central bank policies likely to be supportive for EM assets</td>
<td>Recovery in EM remains elusive, amid a potential continued slowdown in China and its trading partners</td>
</tr>
<tr>
<td>EM central banks expected to stay dovish given the benign inflation outlook</td>
<td>Idiosyncratic risks in some EM countries remain significant</td>
</tr>
<tr>
<td>A weaker USD should be an additional support for returns</td>
<td>Geopolitical concerns, albeit with limited spillover effects</td>
</tr>
<tr>
<td>EM LC bonds benefit from an attractive yield of over 5% and a still-significant real (net-of-inflation) yield premium over US Treasuries</td>
<td>A weaker CNY would risk broader EM currency weakness and negatively affect the asset class</td>
</tr>
</tbody>
</table>

SCB’s net assessment

Source: Standard Chartered Global Investment Committee

Our net assessment:

- The bonds offer an attractive yield of over 5%
- EM local currency government bonds prices should benefit from dovish EM central banks
- Potential positive currency gain from weaker USD

JPM GBI-EM index return: price, interest and FX components

Source: Bloomberg, Standard Chartered
Developed Market Investment Grade (DM IG) corporate bonds

Less preferred – Unattractive risk-reward

Expensive valuations and rising leverage offset high credit quality

- Expensive valuations (measured by yield premiums over Treasuries) relative to history, likely caps the potential for yield premiums to decline further, limiting the total return potential.
- DM IG corporate leverage (measured by Debt/EBITDA) continues to rise, though lower average borrowing costs by historical standards have reduced the impact of overall funding costs.
- The continuing high level of credit quality would make this sub-asset class attractive in case of a deterioration in global risk sentiment.

Fig. 1 Will DM IG corporate bonds outperform?

<table>
<thead>
<tr>
<th>Supports outperformance</th>
<th>Supports underperformance</th>
</tr>
</thead>
<tbody>
<tr>
<td>The continued accommodative Fed policy will help keep yields low</td>
<td>Rising corporate debt makes US IG corporates susceptible to economic slowdowns.</td>
</tr>
<tr>
<td>Ratings upgrades, especially in the BBB-rated segment are still meaningfully outpacing downgrades</td>
<td>Credit strength is being undermined by continued shareholder-friendly behaviour (share buybacks), despite weak earnings growth</td>
</tr>
<tr>
<td>Global demand for bonds offering positive yields will remain high while net supply is expected to decline</td>
<td>Expensive valuations relative to history means yield premiums have higher probability of rising (leading to lower prices) than declining</td>
</tr>
<tr>
<td></td>
<td>At the margin, the high cost of currency hedging is likely to deter foreign investors</td>
</tr>
</tbody>
</table>

Source: Standard Chartered Global Investment Committee

Our net assessment:

- DM IG corporate bonds are likely to underperform global bonds
- Expensive valuations create an unattractive risk-reward
- Lower supply in 2020 to lead to supportive supply-demand balance

Fig. 2 US IG corporate bonds yield premiums are expensive by historical standards, leading to unattractive risk-reward

Credit spreads (yield premiums) for BBB and A-rated bonds (the largest rating segments within US IG corporate bond index)

Source: Bloomberg, Standard Chartered

Fig. 3 Despite increasing debt, lower borrowing costs have meant that rating upgrades have outpaced downgrades

Rating upgrade/downgrade ratio across S&P, Moody’s and Fitch for US IG corporates (higher is better)

## Developed Market High Yield (DM HY) corporate bonds

Core holding – Risk-reward balanced

### Attractive yields are offset by rising default risk

- DM HY bonds offer an attractive yield of nearly 6%, the highest amongst the major bond markets.
- Valuations (measured by the level of yield premiums against US Treasuries) are close to their historical average, but rising credit quality concerns are likely to drive their yield premiums higher.
- The energy sector, a key component of DM HY bonds, is currently under stress due to weaker profitability. This could lead to higher defaults and a lower net return to investors.

#### Fig. 1 Will DM HY corporate bonds outperform?

<table>
<thead>
<tr>
<th>Supports outperformance</th>
<th>Supports underperformance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Attractive yield of nearly 6% on offer</td>
<td>Corporate leverage remains elevated and the ongoing slow earnings growth hurts creditworthiness</td>
</tr>
<tr>
<td>Accommodative Fed policy may lead to lower borrowing costs and better repayment ability</td>
<td>Rating downgrades continue to outpace upgrades, leading to lower aggregate credit quality</td>
</tr>
<tr>
<td>Net supply of DM HY bonds is expected to decline in 2020 while retail investor demand remains high</td>
<td>The energy sector is stressed, which could drive higher default rates within DM HY</td>
</tr>
<tr>
<td>The asset class’ low interest rate sensitivity means that price declines would be lower should US Treasury yields rise more than expected</td>
<td></td>
</tr>
</tbody>
</table>

SCB’s net assessment

- | 5 | 4 | 3 | 2 | 1 |
  - outperform other bonds: 3
  - underperform other bonds: 1

Source: Standard Chartered Global Investment Committee

### Our net assessment:

- DM HY corporate bonds are likely to perform broadly in line with global bonds
- Yields are attractive and valuations reasonable by historical standards
- However, the risk of rising defaults and associated rising volatility may weigh on prices and dampen total returns

#### Fig. 2 Yield premiums could rise given our forecast for higher equity market volatility and broader credit quality concerns

**US High Yield bond yield premiums and the VIX Index**

Source: Bloomberg, Standard Chartered

#### Fig. 3 Increase in US HY energy sector yield premiums relative to index highlights the increased default risk in the sector

**US High Yield bonds and US High Yield Energy sector bond yield premiums over US Treasuries and the gap between the two**

Source: Bloomberg, Standard Chartered

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**CREDIT**

**Developed Market High Yield (DM HY) corporate bonds**

**Core holding – Risk-reward balanced**

**Attractive yields are offset by rising default risk**

- DM HY bonds offer an attractive yield of nearly 6%, the highest amongst the major bond markets.
- Valuations (measured by the level of yield premiums against US Treasuries) are close to their historical average, but rising credit quality concerns are likely to drive their yield premiums higher.
- The energy sector, a key component of DM HY bonds, is currently under stress due to weaker profitability. This could lead to higher defaults and a lower net return to investors.

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**US High Yield bonds and US High Yield Energy sector bond yield premiums over US Treasuries and the gap between the two**

Source: Bloomberg, Standard Chartered
Emerging Market USD government bonds

Preferred holding – Improving EM fundamentals

EM USD bonds offer attractive yields and geographical diversification

- EM USD government bonds are still attractive from a valuation perspective, despite their strong performance in 2019.
- The EM growth environment and risk sentiment are likely to continue improving as US-China trade tensions stabilise and credit quality improves.
- Idiosyncratic risks are likely to persist (e.g. in Chile), but contagion is unlikely, in our view.

Fig. 1 Will EM USD government bonds outperform?

<table>
<thead>
<tr>
<th>Supports outperformance</th>
<th>Supports underperformance</th>
</tr>
</thead>
<tbody>
<tr>
<td>The continued accommodative policies by DM central banks remain a strong support for inflows into EM USD bond</td>
<td>Global commodity prices, which historically have been a key driver of EM asset performance, remain subdued</td>
</tr>
<tr>
<td>Better EM fundamentals and a balanced supply/demand outlook should support fund inflows</td>
<td>Several EM countries face locally- or geopolitically-driven risks</td>
</tr>
</tbody>
</table>

Yield is very attractive in a low yielding world

Our net assessment:

- EM USD government bonds offer an attractive balance between yield and reasonable credit quality
- They offer diversified geographical exposure, and a good mix of Investment Grade and High Yield bonds
- Improving EM growth outlook and risk sentiment should support fund inflows

Fig. 2 Credit quality of EM USD government bonds continues to improve from 2017

| JPM EMBI Global Diversified Index by credit rating since 2013 |
|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Investment grade  | HY                | Investment grade  | HY                | Investment grade  | HY                | Investment grade  |
| 100%              | 80%               | 80%               | 60%               | 60%               | 40%               | 40%               |
| 80%               | 60%               | 60%               | 40%               | 40%               | 20%               | 20%               |
| 60%               | 40%               | 40%               | 20%               | 20%               | 0%                | 0%                |

Source: JP Morgan, Standard Chartered

Fig. 3 EM USD government bond valuations are still attractive despite strong performance in 2019

<table>
<thead>
<tr>
<th>JPM EMBI Global Diversified bond yield premiums since 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan-14</td>
</tr>
<tr>
<td>500</td>
</tr>
<tr>
<td>cheaper</td>
</tr>
</tbody>
</table>

Source: Bloomberg, Standard Chartered
Asia USD bonds offer stronger fundamentals than Developed Market peers

- Asia USD bonds offer a reasonable yield, high credit quality and relatively low volatility.
- Strong demand from regional investors likely to be a supporting factor in 2020.
- We have a relative preference for Asia High Yield bonds over Investment Grade bonds due to their attractive valuations, improving credit quality and a stable Asian growth outlook.

Our net assessment:
- Asia USD bonds offer attractive yield for their low volatility
- Regional investor demand remains a solid support
- We prefer Asia High Yield bonds over Investment Grade bonds due to the former’s attractive valuations

Fig. 1 Will Asia USD bonds outperform?

<table>
<thead>
<tr>
<th>Supports outperformance</th>
<th>Supports underperformance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia credit fundamentals have held up better than elsewhere due to corporate de-leveraging efforts</td>
<td>Escalation of US-China trade tensions could lead to rising volatility and higher yield premiums</td>
</tr>
<tr>
<td>Financial conditions are improving in China and some leading Asian countries driven by central bank policy easing</td>
<td>Worse-than-expected growth slowdown in China, which originates the majority of Asia USD bonds, would affect the credit quality of Asia bonds</td>
</tr>
<tr>
<td>Strong regional demand and a diversified investor base support the technical picture</td>
<td>Rise in default expectations, especially bonds in the industrial sector, might negatively affect investor sentiment and reduce demand</td>
</tr>
</tbody>
</table>

 Increasingly attractive valuations of Asia High Yield bonds

SCB’s net assessment

Source: Standard Chartered Global Investment Committee

Fig. 2 Asia USD bonds have had moderate volatility over the past 5 years, less than their Developed Market peers despite slower Asian growth

90-day volatility of DM rates, DM IG corporate, Asia USD bonds

Source: Bloomberg, Standard Chartered

Fig. 3 Risks may have risen for Asia HY bonds, but investors appear to have more than priced in these risks

Asia HY to IG spread multiples since 2014

Source: Bloomberg, Standard Chartered
Equity – at a glance

**Key themes**

The backdrop for global equities in 2020 remains positive, in our assessment. Low interest rates and rising excess liquidity is expected to encourage investors who have watched from the sidelines to join the bull market. Earnings are forecast to recover somewhat globally, yet valuations are elevated, even in the US.

Euro area equities are *most preferred* in 2020. The outlook for Euro area banks has improved following ECB action to reduce the impact of negative interest rate on the sector. Historically, Euro area equities tend to outperform global equities when Euro area banks are outperforming the market. Both Euro area banks and US technology are amongst our preferred sectors.

**Key chart**

*Global equities tend to rally when money supply is rising*

MSCI All country World index and Global M1 Money supply

A recovery in global M1 money supply has historically been positive for global equities.

Combined with lower interest rates and a resumption of QE, the backdrop for equities in 2020 is positive.

<table>
<thead>
<tr>
<th>Preference order</th>
<th>Preference</th>
<th>Reason</th>
<th>Valuations</th>
<th>Bond yields</th>
<th>Fund flows</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Euro area equities</strong></td>
<td>▲ ▲</td>
<td>Valuations and forecast fund flows in 2020 are supportive of the market. Bond yields, while above their recent lows, are not an obstacle to growth.</td>
<td>▲</td>
<td>▼</td>
<td>▲</td>
</tr>
<tr>
<td><strong>US equities</strong></td>
<td>▲ ▲</td>
<td>US equities are preferred. Low bond yields keep the cost of debt low, providing cheap funding for share buybacks and investment. Earnings and fund flows are forecast to recover in 2020.</td>
<td>▲</td>
<td>▼</td>
<td>▲</td>
</tr>
<tr>
<td><strong>Asia ex-Japan equities</strong></td>
<td>◆ ▲</td>
<td>Asia ex-Japan is a core holding. A weaker USD in 2020 is likely to boost the market. Falling bond yields are expected to result in a pick-up in fund inflows. China offshore is a preferred market within the region.</td>
<td>▲</td>
<td>▼</td>
<td>▲</td>
</tr>
<tr>
<td><strong>UK equities</strong></td>
<td>◆ ▲</td>
<td>UK is a core holding. Dividends and valuations are attractive relative to peers. Low bond yields and prior underperformance signal the potential for a recovery in fund flows as political uncertainty is reduced.</td>
<td>▲</td>
<td>▼</td>
<td>▲</td>
</tr>
<tr>
<td><strong>Japan equities</strong></td>
<td>◆ ▲</td>
<td>Japan is a core holding. Improvement in Chinese leading economic indicators are positive for the Japanese market. TOPIX index reforms are also a positive and could lead to increased fund inflows.</td>
<td>▲</td>
<td>▼</td>
<td>▲</td>
</tr>
<tr>
<td><strong>EM ex-Asia equities</strong></td>
<td>◆ ▲</td>
<td>EM ex-Asia is a core holding. Valuations are attractive relative to history and peers. Earnings growth in 2020 is forecast at 12%. A weaker USD is supportive of a pick-up in fund inflows.</td>
<td>▲</td>
<td>▼</td>
<td>▲</td>
</tr>
</tbody>
</table>


Legend: ▲ Most preferred | ▼ Less preferred | ◆ Core holding | ○ Not supportive | ▼ Neutral | ● Supportive | ◊ Key driver

Source: Standard Chartered

Legend: ▲ Most preferred | ▼ Less preferred | ◆ Core holding | ○ Not supportive | ▼ Neutral | ● Supportive | ◊ Key driver
Why do we like global equities?

01 Easy financial conditions

Resumption of Quantitative Easing in Euro area

02 Equities are cheap relative to bonds

Equity valuations cheaper than bonds

03 Cycle winners

12%

Equities return in second stage of our quant-based cycle

04 Long term equity returns > bonds

7%

Returns for global equities

2%

Returns for bonds

05 Share Buybacks

UK buybacks @ 4.0% of market capitalisation

US buybacks @ 3.5%

06 Falling Corporate taxes

US, China, India cut corporate taxes
Why do we like...

**US Equities**

- **Share buybacks**
  - USD 800 bn

- **Lower corporate taxes**
  - from 35% to 21%

- **Less exposed to trade war**
  - S&P500 foreign sales: 38%

**EM ex-Asia Equities**

- **Exposure to China growth**
  - Brazil supplies 22% China iron ore imports

- **Exposure to commodities**
  - 30% of the index

- **Country diversification**
  - 15 markets | Brazil is the biggest: 27%
High dividend yield
FTSE100 5%, MSCI World 2.6%

Exposure to commodities
Energy & materials = 25% of the UK equities market

Leveraged to global growth
FTSE100 overseas sales: 76%

Improving outlook for banks
ECB policies

Exposure to China growth
China: Third largest export destination for Euro area exports

Lower interest rates compared to peers
20-year average
Euro area base rate: 4%, US: 5%

UK Equities

Euro Area Equities

Japan Equities

Asia ex-Japan Equities

Innovation leader
Semiconductors / automation / robotics

Leveraged to global growth
Industrials & Auto share of the index: 30%

Corporate reform
Higher share buybacks & dividends

Exposure to China growth
38% of index

Superior earnings growth
10-year average annual EPS growth: 12%

Growth at a reasonable price (GARP)
Asia ex-Japan average valuation 10% below global equities
US equities

Preferred holding – Share buybacks and earnings to drive market higher

US equities expected to benefit from improved earnings outlook

- High earnings yield relative to the cost of debt is likely to encourage continued share buybacks and elevated Merger and Acquisition activity in the US.
- We expect the USD to weaken in 2020. A weaker USD has historically contributed to higher earnings revisions, which is a lead indicator for earnings growth.
- Increased policy uncertainty as we approach the US presidential election is a market risk in 2020. US-China trade tensions, while improving, remain another source of volatility.

Fig. 1 Will US equities outperform?

<table>
<thead>
<tr>
<th>Supports outperformance</th>
<th>Supports underperformance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outside view: US equities outperformed Global equities 62% of the time and by 7% when they have Corporate margins are expected to remain at high levels. Historically, margins have not contracted unless GDP growth is &lt;2% US equity market suffered from household and institutional fund outflows in 2019, leaving corporate share buybacks as the sole source of inflows</td>
<td></td>
</tr>
<tr>
<td>Cheap financing likely to support share buybacks and M&amp;A activity in 2020 As the US election draws closer, populist policies including higher taxes, regulation and healthcare reform could act as a drag on market performance</td>
<td></td>
</tr>
<tr>
<td>Lead indicators of corporate earnings have turned up, underpinning forecast for a return to double-digit earnings growth in 2020 Individual margin drivers including wages, pricing power, interest rates, globalisation and taxes are turning from tailwinds to headwinds</td>
<td></td>
</tr>
</tbody>
</table>

SCB’s net assessment

- Share buybacks driving fund inflows
- USD weakness will support earnings revisions
- US election, trade tensions are significant risks, but they are balanced by investor “FOMO”

Our net assessment:

Fig. 2 US share buybacks increase as the earnings yield rise relative to the cost of debt, a trend we expect to continue

S&P500 share buybacks and earnings yield-less-debt cost

Source: FactSet, Standard Chartered

Fig. 3 A weaker USD has historically contributed to higher earnings revisions. We forecast a lower USD in 2020, boosting revisions

S&P500 earnings revisions and USD index

Source: FactSet, Standard Chartered
Asia ex-Japan equities

Core holding – Earnings bottoming out

Asia ex-Japan equities supported by peaking trade tensions

• Asia ex-Japan equities are likely to be supported by stabilising US-China trade tensions.
• Regional monetary and fiscal easing measures support an acceleration in earnings growth.
• Geopolitical tensions, centred on US-China relations, are the biggest potential shock for Asia ex-Japan equities in 2020.

Our net assessment:

• Stabilising trade tensions a positive for Asia ex-Japan equities
• The recovery in semiconductor demand is a positive catalyst for the region
• Re-rating in the local semiconductor industry likely to be supportive

Fig. 1 Will Asia ex-Japan equities outperform?

<table>
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</thead>
<tbody>
<tr>
<td>Outside view: Asia ex-Japan equities have outperformed global equities 52% of the time and by 16% when they have</td>
<td>Sentiment is weak as geopolitical risks in Greater China region remain an overhang</td>
</tr>
<tr>
<td>Monetary easing measures in the region are constructive for equities, corporate tax cuts in India and China aid earnings growth</td>
<td>Global economic slowdown and weak China macro data have affected international trade which the region is heavily dependent on</td>
</tr>
<tr>
<td>The rebound in the semiconductor industry led by 5G and cloud is positive for the region as the industry group represents 10% of Asia ex-Japan index</td>
<td>Valuations are reasonable against their long term average, but capped by uncertain US-China trade developments</td>
</tr>
<tr>
<td>Foreign investor positioning is underweight. An interim US-China trade deal could lead to strong gains</td>
<td></td>
</tr>
</tbody>
</table>

SCB’s net assessment

Fig. 2 We do not expect trade tensions to escalate as we move towards the US election, reducing risk of CNY weakness

MSCI Asia ex-Japan’s index relative to USD/CNY (inverted)

Fig. 3 Asia ex-Japan equities have room to catch up after lagging behind the semiconductor index

MSCI Asia ex-Japan’s index and semiconductor index

Source: FactSet, MSCI, Standard Chartered
China equities

China offshore preferred – Stimulus ahead

China offshore equities risk premium expected to decline

- Personal income tax cuts in China have reduced the tax burdens for individuals. Further cuts could stimulate incremental consumption and drive earnings.
- China offshore equity performance benefits from easing global monetary conditions. Possible interest rate cuts in China are constructive for the market.
- The US-China trade dispute and the CNY movement remain longer term risks for the market.

Fig. 1 Will China equities outperform?

<table>
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<th>Supports outperformance</th>
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<tr>
<td>China offshore equity market witnessed net outflows in 2019 amidst US-China trade tensions and is under-owned</td>
<td>Outside view: China offshore equities have outperformed Asia ex-Japan equities 49% of the time and by 9% when they have</td>
</tr>
<tr>
<td>Supportive local fiscal stimulus to support economic growth</td>
<td>China’s economic slowdown undermined corporate earnings, falling producer prices could drag industrial profits lower</td>
</tr>
<tr>
<td>The compelling valuations of China offshore market relative to Asia ex-Japan offers upside as US-China trade tensions peak</td>
<td>China onshore equities could face slower foreign inflows until MSCI further increases the inclusion factor</td>
</tr>
<tr>
<td>China equities could benefit from easing monetary policy</td>
<td>China ADR listing faces US regulatory risks</td>
</tr>
</tbody>
</table>

Source: Standard Chartered Global Investment Committee

Fig. 2 China’s personal income tax cuts could boost disposable income and consumption

China’s tax rate and monthly income (CNY)

Source: FactSet, Standard Chartered

Fig. 3 China offshore equities could benefit from easing monetary conditions

MSCI China Index performance and China excess liquidity y/y change

Source: FactSet, Standard Chartered

Our net assessment:

- Lower tax burden for individuals should boost domestic consumption
- We prefer China offshore equities as they have been most affected by US-China trade tensions
- China onshore equities should be supported by fiscal policy measures
**China Equities**

**Financial conditions**
Rate cuts and increased government spending to stabilise growth

**Valuations**
China offshore equities valuations attractive relative to Asia ex-Japan markets

**Fund inflows**
Potential listings of US-listed Chinese companies in Hong Kong could boost fund inflows

**Low positioning**
Foreign ownership of Chinese equities is low, but rising

**Falling taxes**
Cuts in personal tax and VAT rates boost disposable income, supporting consumption growth
Euro area equities

Preferred holding – Banks re-rating to drive market performance

Euro area outflows expected to reverse in 2020

• ECB measures to shield banks from negative rates are positive for the market and is expected to act as a catalyst to reverse negative sentiment.

• Euro area equities tend to outperform global equities when the Euro area banks are re-rating and outperforming the market.

• On top of a continued easy monetary policy by the ECB there is potential for greater fiscal expansion in several countries that could boost growth and attract investor inflows into Euro area equities.

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</tr>
</thead>
<tbody>
<tr>
<td>Outside view: Euro area has outperformed global equities 53% of the time and by 7% when they have</td>
<td>Consensus expectations for 10% earnings growth in 2020 may disappoint given significantly lower sales growth estimates</td>
</tr>
<tr>
<td>The Euro area dividend yield is attractive, especially relative to the yield on Euro area bonds</td>
<td>Euro area equities’ price/earnings valuation multiple is above its long term average</td>
</tr>
<tr>
<td>Euro area banks’ valuations are below average with potential to re-rate on supportive ECB measures</td>
<td>An escalation in US-Europe trade tensions could raise uncertainty and dampen corporate earnings</td>
</tr>
<tr>
<td>Easy regional monetary policy with potentially more fiscal easing could boost growth and investors’ demand for Euro area equities</td>
<td>A failure to agree a trade deal with the UK is a risk</td>
</tr>
</tbody>
</table>

Our net assessment:

• ECB policies now more supportive of banks’ performance

• When Euro area banks do well, Euro area outperforms global equities

• Fiscal expansion could attract fund inflows to Euro area equities

Source: Standard Chartered Global Investment Committee

Fig. 2 Euro area equities outperform when their banks are outperforming

Relative performance of Euro Stoxx and Euro Stoxx banks

Source: FactSet, MSCI, Standard Chartered

Fig. 3 Euro area banks’ valuation discount to the market can narrow given supportive ECB policies

Price/Earnings ratio of Euro Stoxx Banks and Euro Stoxx index

Source: FactSet, Standard Chartered
UK equities

Core holding – Global growth beneficiary

GBP strength a headwind for UK equities

- Large cap UK stocks generate 76% of their revenues outside the UK, so an improvement in global growth would have a significant positive impact.
- We expect GBP to strengthen, which is a headwind to UK competitiveness and GBP based investors, but benefits investors in USD terms.
- UK equities offer a 4.8% dividend yield, which is significantly higher than global equities at 2.6% and also above its own long-term average.

Fig. 1 Will UK equities outperform?

<table>
<thead>
<tr>
<th>Supports outperformance</th>
<th>Supports underperformance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividend yield is very attractive, relative to history and other regions</td>
<td>Outside view: UK equities have outperformed global equities only 34% of the time and by 5% when they have</td>
</tr>
<tr>
<td>The risk of a no-deal Brexit has diminished significantly and this should reduce the risk premium attached to UK equities over time</td>
<td>Uncertainty on the final Euro area trade agreement may continue to inhibit investment decisions and growth</td>
</tr>
<tr>
<td>The outflow of funds from UK equities has now stabilised</td>
<td>Political risk may remain if UK election result/Brexit revives referendum calls in Scotland</td>
</tr>
<tr>
<td>Increasing takeover interest in UK companies as corporates take advantage of low valuations to acquire companies</td>
<td>A stronger GBP which we expect, is a headwind to the competitiveness of UK based corporates</td>
</tr>
</tbody>
</table>

SCB’s net assessment

Source: Standard Chartered Global Investment Committee

Our net assessment:

- Improving global growth and reduced political uncertainty will have a positive impact on the market
- UK offers very attractive dividend yields for investors
- Brexit uncertainty is impacting domestic demand and profitability

Fig. 2 UK equities offer an attractive dividend yield

Source: FactSet, MSCI, Standard Chartered

Fig. 3 UK equities have the greatest foreign revenue exposure

Source: FactSet, MSCI, Standard Chartered
Japan has become even cheaper

- Valuations for Japanese equities are attractive. Earnings and dividends per share have surged since 2012, but this has not been matched by corresponding move in equity markets.
- Japanese corporate earnings growth is strongly correlated with China’s PMI. A stabilisation in China’s economy should reduce the headwind to earnings and equity inflows.
- Any re-escalation of US-China trade tensions is the biggest potential risk for Japanese equities in 2020.

Fig. 1 Will Japan equities outperform?

Supports outperformance | Supports underperformance
---|---
Japanese equities have witnessed equity outflows due in part to the US-China trade war. An easing of trade tensions could reverse these outflows | Outside view: Japan equities have outperformed global equities 33% of the time and by 14% when they have
Rising dividend yield and share buybacks combined with low valuations are supportive of the market | Japanese corporate profits rely heavily on foreign demand, and are therefore vulnerable to the US-China trade war and JPY movement
Investors are underweight. Excluding Bank of Japan purchases, cumulative flows into Japanese equities are at 10-year lows | Earnings in 2020 are forecast to grow 3.7%, the lowest among large markets.
The proposed reform of the TOPIX index, dividing the market into a large cap “Premiership” or prime index as well as standard and growth sections, is positive | Consumption tax hike may hurt the retail sector, although the impact is mitigated by increases in welfare benefits

Our net assessment:

- An easing of trade tensions could reverse outflows
- High level of corporate cash holdings has undermined equity returns
- Share buybacks, however, have been supportive

Fig. 2 Japanese earnings more than doubled, making valuations attractive

Fig. 3 Earnings forecast revisions for Japan could pick up if China’s PMI rebounds from here
Equity sector strategy

Sector views: Turning up the heat

US Equity Sector
Financials – Preferred holding
The US financials sector remains a preferred holding. Growth in consumer loans and credit demand are key drivers of our sector view and are likely to lead to upside earnings surprise. Net interest margins in 2020 are expected to rise to 2.55%. The price-book (P/B) ratio is elevated at 1.4x versus long-term average 1.2x.

Information Technology – Preferred holding
US information technology remains a preferred holding. The sector is benefitting from a strength in software and services demand, which is offsetting the headwinds from the US-China trade tensions. Valuations are elevated with price-earnings (P/E) ratio at 21x, above long-term 16x average, but earnings are on an improving trend.

China Equity Sector
Consumer discretionary – Preferred holding
China consumer discretionary sector remains a preferred holding. Prospects of further monetary and fiscal stimulus should reinforce the Chinese consumption theme and continue to support performance. Valuations are elevated with 12-month forward P/E of 23x versus long-term 15x. Valuations are supported by 29% earnings growth in 2020.

Consumer staples – Preferred holding
The China consumer staples sector remains a preferred holding. The sector enjoys similar drivers as consumer discretionary, but typically offers better downside protection. 31% expected earnings growth in 2020 is above the long term 20% average and valuations are fair with the 12-month ahead P/E ratio at 22x versus the long-term average of 21x.

Europe Equity Sector
Healthcare – Preferred holding
Europe healthcare sector remains a preferred holding. The sector has historically outperformed the MSCI Europe index 70% of the time when both US and European equities outperformed global equities (in line with our current views). Valuations are fair with 12-month ahead P/E at 16x. Expected earnings growth in the next 12 months is above the long-term average of 6.1%.

Financials – Preferred holding
We have upgraded Europe’s financials sector to preferred status. The ECB’s decision to exempt a portion of Euro area banks central bank deposits from negative rates is a clear positive for the sector. Net interest margins increased in 2019 and are expected to average 2.04% in 2020. European Banks have re-rated with the P/B ratio at 0.7x versus long-term average of 0.8x.
**Key themes**

We believe that the USD is peaking after trending higher since early 2018, and will begin a broad-based downtrend. We expect the USD index (DXY) to decline by around 5% during 2020 as the Fed adds fresh global USD liquidity.

The EUR and the GBP are likely to be the biggest beneficiaries on the back of fading US economic exceptionalism, narrowing economic growth and interest rate differentials as well as political uncertainty shifting from Europe to the US Presidential election.

---

**USD to weaken as the Fed provides the world with more liquidity**

USD index (DXY), USD monetary base, y/y (RHS, inverted)

The Fed’s policy shift to supply the world with more dollar liquidity, via an expanding balance sheet, is a key driver of our bearish USD view.

**Key chart**

The EUR should benefit from USD outflows as Euro area growth improves and chances of fiscal stimulus rise.

A quick Brexit deal could finally unlock strong pent-up demand for undervalued UK assets and the GBP.

We see US-China trade tensions peaking. This should reduce the volatility of USD/CNY.

The JPY will likely be caught between bouts of safe-haven inflows and Japanese investors’ return-seeking outflows.

The AUD should see support from improving domestic fundamentals, but RBA monetary policy may deter strong gains.

---

Source: Bloomberg, Standard Chartered

Legend: ▲ Bullish view | ▼ Bearish view | ◇ Range view | ◆ Not supportive | ○ Neutral | ● Supportive | □ Key driver
What drives our FX Outlook?

Narrowing interest rate differentials will undermine USD

Rising USD liquidity weighs on the dollar

US political risk may rise while European risks recede

Falling US growth exceptionalism will no longer support the dollar

Investment flows will likely move away from USD assets

Historically low FX volatility may reverse...?
USD (DXY)

Bearish – US exceptionalism to reverse in 2020

Dollar to weaken, reversing a 2-year uptrend

- Increased global dollar liquidity facilitated by the Fed, combined with bottoming global economic indicators are likely to drive a narrowing of economic growth differentials to the detriment of the USD.

- Falling real interest rate differentials, and a possible shift to more fiscal stimulus outside of the US, are expected to turn the real rate differential from a tailwind into a headwind for the USD.

- We see potential for de-escalation of US-China trade tensions near-term and rising US policy uncertainty ahead of the US elections. This should undermine the USD’s safe-haven status.

Fig. 1 Will the USD (DXY) rise in 2020?

<table>
<thead>
<tr>
<th>Bullish factors</th>
<th>Bearish factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Absolute growth and interest rates could continue to favour the US despite narrowing differentials</td>
<td>The Fed’s balance sheet expansion will increase global USD liquidity</td>
</tr>
<tr>
<td>A lack of attractive alternatives to US assets could see the counter-cyclical dollar stay strong for longer</td>
<td>Real yield differentials likely to narrow further in 2020 with a Fed having more scope to ease monetary policy than elsewhere in the G3</td>
</tr>
<tr>
<td>The US election process could trigger elevated trade tensions and drive safe-haven -ows to the USD</td>
<td>Narrowing growth differentials as global economies adjust fiscal policy to boost growth outside the US and make non-US assets more attractive</td>
</tr>
</tbody>
</table>

SCB’s net assessment

Fig. 2 Real interest rate differentials argue for a weaker USD

DXY, DXY-weighted real interest rate differentials* (RHS)

Source: Bloomberg, Standard Chartered

*Derived from 10-year inflation-linked bonds

Fig. 3 USD reserve currency status could continue to weaken

FX reserves in various currencies as % of total allocated

Source: Bloomberg, Standard Chartered
Stabilising Euro area growth and capital inflows are tailwinds for the EUR

- Global dollar liquidity, a bottoming global manufacturing cycle and receding trade tensions should create a supportive scenario for the undervalued EUR.
- The ECB has limited options to ease its monetary policy but the Fed could ease further if required. Narrowing interest rate differentials should reduce a key headwind for EUR/USD.
- The Euro area could benefit from additional fiscal stimulus alongside existing easy monetary policy, attracting significant capital inflows in return.

Fig. 1 Will the EUR/USD rise in 2020?

Bullish factors
- Euro area growth has room for an upside surprise relative to the US; the undervalued EUR should gain as the USD reverses a 2-year uptrend
- Rate differentials becoming more supportive as the ECB has less scope to cut rates and the Fed adds global USD liquidity
- Euro area asset valuations are more attractive than US; as USD hedging costs rise, a return of capital inflows may support the EUR
- The stabilisation of US-China trade relations and rising US policy uncertainty may increase risk appetite for non-USD currencies

Bearish factors
- Counter-cyclical dollar could retain current strength if global growth does not rebound, leaving EUR/USD in its mild downtrend
- Nominal high US rates and market size may favour US assets with EUR remaining a funding currency
- Germany could refrain from further fiscal stimulus, undermining Euro area growth and currency outlook
- Continuous deflationary pressures could force the ECB to ease monetary policy even further

SCB’s net assessment

Our net assessment:
- We expect the EUR/USD to rise by 5% towards 1.17 in 2020
- Euro area assets relatively attractive; return of capital inflows are likely to support undervalued EUR
- EUR strength is likely to be further bolstered if Germany acts on ECB President Lagarde’s call for more fiscal stimulus

Fig. 2 Stabilising manufacturing sector and improved business expectations should aid the EUR recovery

EUR/USD, German manufacturing sector outlook (RHS)

Source: Bloomberg, Standard Chartered

Fig. 3 Real interest rate differentials more supportive of the EUR

EUR/USD, EU-US real interest rate differential* (RHS)

Source: Bloomberg, Standard Chartered
*Derived from 5-year inflation-linked bonds
GBP/USD

Bullish – Conservative victory to clear the Brexit cloud

Pro-business parliament could release upside potential as Brexit risk ebbs

- PM Johnson’s comfortable majority should reduce uncertainty and give him a strong legislative position.
- Increased confidence in Brexit deal may unleash pent-up demand for the undervalued pound.
- Increased fiscal spending and rising global growth should support GBP/USD. The Bank of England is likely to consider rate hikes if inflationary pressures rise, providing a further GBP boost.

Fig. 1 Will the GBP/USD rise in 2020?

<table>
<thead>
<tr>
<th>Bullish factors</th>
<th>Bearish factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduced Brexit uncertainty should help the GBP to rise towards its medium-term valuation</td>
<td>Failure to agree on a clear outline for a UK-EU long-term trade deal, or evidence that ex-EU trade deals will be difficult to achieve, could stall any rally</td>
</tr>
<tr>
<td>Rising global dollar liquidity and an improving Euro area growth outlook supportive of the GBP</td>
<td>Concerns over Scottish independence and a hard-to-achieve solution for Northern Ireland may become lingering and increasingly serious headwinds for GBP</td>
</tr>
<tr>
<td>A quick and positive trade agreement with the EU could help delay concerns over Scottish independence and Northern Ireland tensions</td>
<td>Lingering Brexit-related uncertainty could undermine growth, pushing the BoE to cut rates and weakening the GBP</td>
</tr>
<tr>
<td>Inflationary pressure may rise despite an appreciating GBP, encouraging the Bank of England to take a more hawkish stance</td>
<td>Any unexpected obstacles to a rapid enactment of the Withdrawal Agreement could dampen GBP sentiment</td>
</tr>
</tbody>
</table>

SCB’s net assessment

Fig. 2 GBP likely to retrace more post-referendum losses

GBP/USD before and after the 2016 Brexit referendum date

Fig. 3 Real interest rate differentials indicate a stronger GBP/USD

GBP/USD, UK-US real interest rate differential* (RHS)

*Derived from 2-year bond yields minus current inflation

Our net assessment:

- We expect GBP/USD to rally towards 1.41 in 2020
- UK economic growth could rise on fiscal spending and fresh capital inflows
- Bank of England policy may turn hawkish as growth rises, supporting GBP strength
USD/CNY

Rangebound – US-China trade tensions the key driver

USD/CNY could pivot around 7 as focus remains on US-China talks

- We see USD/CNY trading between 6.80 – 7.20 as it responds to the ebb and flow of bilateral trade tensions through 2020.
- Increased global dollar liquidity is likely to support the CNY as it would lead to falling domestic debt stress and rising international risk appetite for Chinese investments.
- Fear of deflationary pressure could prompt Chinese authorities to accelerate monetary and fiscal stimulus; an orderly weakening of the CNY could then be an acceptable policy tool.

Our net assessment:

- We see USD/CNY rangebound between 6.80 and 7.20 in 2020
- More extensive US-China tariff rollbacks would likely trigger a USD/CNY decline
- If growth slows further and deflationary pressure rises, Chinese policy response could likely push USD/CNY higher

Fig. 1 Will the USD/CNY rise in 2020?

<table>
<thead>
<tr>
<th>Bullish factors</th>
<th>Bearish factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deteriorating global trade and geopolitical tensions could reduce risk appetite and support USD/CNY</td>
<td>A conclusion of one or more trade deals that include a significant tariff rollback would likely see USD/CNY adjust lower</td>
</tr>
<tr>
<td>The continued de-leveraging of China’s economy should see a narrowing China-US growth rate differential, supporting USD/CNY</td>
<td>The PBOC has stated its intention to keep interest rates positive with an upward sloping yield curve and not to engage in competitive CNY devaluation</td>
</tr>
<tr>
<td>Rising fears of a deflationary spiral could see the PBOC cutting rates further, reducing rate differentials, boosting USD/CNY</td>
<td>A shift from globalisation to regionalisation could see more investment allocation and reserves flowing into CNY</td>
</tr>
<tr>
<td>Capital flows may become more tightly managed and regulated, deterring CNY inflows and supporting USD/CNY</td>
<td>Growth stabilisation could lead to a positive cycle that improves China’s growth differential with the US and push USD/CNY lower</td>
</tr>
</tbody>
</table>

SCB’s net assessment

Source: Standard Chartered Global Investment Committee

Fig. 2 USD/CNY has moved in-step with negative and positive trade announcements

Source: Bloomberg, China Briefing, Standard Chartered
*Vertical bars indicate dates of key trade-related announcements
USD/JPY & AUD/USD

Rangebound:
USD/JPY – Driven by global risk appetite
AUD/USD – RBA policy to counter AUD strength

USD/JPY and AUD/USD are both sensitive to trade tensions

- We expect USD/JPY to be rangebound; JPY is a popular funding currency when FX volatility stays subdued and Japanese investors seek attractive yields from unhedged overseas assets.
- Although not our base case, if global growth remains weak and trade tensions rise, JPY would likely attract safe-haven flows due to its strong net international investment position.
- Australia’s terms of trade (TOT)* are supportive, but expected Chinese stimulus does not contain strong demand for commodities. The RBA could deter rapid AUD appreciation.

![Fig. 1 Will USD/JPY & AUD/USD rise in 2020?](image)

### Bullish factors
- USD/JPY: US assets continue to offer attractive returns on an unhedged basis if volatility stays low, driving demand for USD/JPY
- USD/JPY: BoJ is expected to keep rates policy on hold, making it likely that the JPY remains a favoured funding currency, supporting USD/JPY
- AUD/USD: Fading trade tensions, better global growth and Terms of Trade* are supportive

### Bearish factors
- USD/JPY: JPY is typically a “risk-off” currency at times of geopolitical tension or slow global growth
- USD/JPY: Japanese investors may need to hedge significant currency exposure and sell USD/JPY
- AUD/USD: Accommodative RBA monetary policy and guidance could lean against a rapid AUD rise

**SCB’s net assessment**

- **USD/JPY**
  - bullish: 5
  - bearish: 1
- **AUD/USD**
  - bullish: 5
  - bearish: 1

Source: Standard Chartered Global Investment Committee

**Fig. 2 Net Japanese investment outflows may limit JPY strength**

USD/JPY, JP foreign purchases of US securities (3m rolling; RHS)

Source: Bloomberg, Standard Chartered

**Fig. 3 Favourable Terms of Trade limits AUD downside**

AUD/USD, AUD Terms of Trade* (RHS)

Source: Bloomberg, Standard Chartered

*See Glossary on page 76 for definitions
EM Asia FX

Bearish USD/INR; Rangebound SGD, KRW and MYR

Attractive investment opportunities could drive EM Asia capital inflows

• A recovery in global growth, gradual easing of trade tensions and a broadly weaker USD should improve risk sentiment towards Emerging Markets currencies.

Fig. 1 Will Asian currencies rise in 2020?

<table>
<thead>
<tr>
<th>Bullish factors</th>
<th>Bearish factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>USD/INR: Possible RBI rate cuts along with non-bank financial sector stress may underpin USD/INR</td>
<td>USD/INR: Range-bound oil prices are expected to further ease current-account pressure; INR investment inflows should respond to favourable fiscal conditions</td>
</tr>
</tbody>
</table>

SCB’s net assessment

<table>
<thead>
<tr>
<th>Bullish USD/INR</th>
<th>Bearish USD/INR</th>
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<tbody>
<tr>
<td>5</td>
<td>4</td>
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<tr>
<td>3</td>
<td>2</td>
</tr>
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<td>2</td>
<td>1</td>
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</tbody>
</table>

USD/KRW: If global growth and trade fail to rebound, USD/KRW will be supported

USD/KRW: A less aggressive US trade policy stance should provide a window for the USD/KRW to fall into a slightly lower trending range

SCB’s net assessment

<table>
<thead>
<tr>
<th>Bullish USD/KRW</th>
<th>Bearish USD/KRW</th>
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<tbody>
<tr>
<td>5</td>
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<td>3</td>
<td>2</td>
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<tr>
<td>2</td>
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</tbody>
</table>

USD/SGD: The domestic economy is highly sensitive to global and regional trade; long lasting trade tensions support USD/SGD

USD/SGD: Monetary policy is likely to remain stable; easing trade tensions could push USD/SGD lower near-term

SCB’s net assessment

<table>
<thead>
<tr>
<th>Bullish USD/SGD</th>
<th>Bearish USD/SGD</th>
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<tr>
<td>5</td>
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</table>

USD/MYR: Exposure to trade flows with China and Singapore and rising inflationary pressure could see upward pressure on USD/MYR

USD/MYR: Relatively attractive domestic rates could cap USD/MYR on trade calm and broadly improving risk sentiment

SCB’s net assessment

<table>
<thead>
<tr>
<th>Bullish USD/MYR</th>
<th>Bearish USD/MYR</th>
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<tbody>
<tr>
<td>5</td>
<td>4</td>
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<td>3</td>
<td>2</td>
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<tr>
<td>2</td>
<td>1</td>
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</tbody>
</table>

Source: Standard Chartered Global Investment Committee

Our net assessment:

• We expect USD/INR to fall by around 5% towards 68.00 in 2020
• Our USD/KRW view sees potentially volatile range trading towards 1150
• We believe USD/SGD will be rangebound between 1.34 – 1.40
• USD/MYR is expected to be rangebound between 4.05 – 4.25

Fig. 2 USD/INR could decline on strong portfolio INR inflows

USD/INR: Foreign investment flows into Indian equities and bonds, y/y level change* (RHS)

Source: Bloomberg, Standard Chartered

Fig. 3 USD/KRW direction is highly sensitive to trade tensions

USD/KRW, US-China trade-related announcements

Source: Bloomberg, China Briefing, Standard Chartered
Gold

Preferred – Fundamentals still supportive

Still preferred; opportunistically add long exposure on dips

- We retain gold as a preferred holding and see the current pause in gold’s rally as an opportunity to add exposure to the precious metal.
- Real (net of inflation) interest rates, inflation expectations and the USD remain key drivers. We believe the historical negative gold-USD correlation should reassert itself, which should benefit gold as the USD retreats.
- In the near term, catalysts for gold to move higher are lacking. An unexpected flare up of trade tensions and/or any indications of global growth weakness could see renewed upside for gold given its safe-haven characteristics.

Fig. 1 Will gold rise in 2020?

<table>
<thead>
<tr>
<th>Bullish factors</th>
<th>Bearish factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opportunity costs of holding gold are still low as real yields are unlikely to rise significantly</td>
<td>Gold is sensitive to higher interest rates given its non-yielding attributes. A falling stock of negative-yielding debt, as global yields gradually rise, would reduce the attractiveness of holding gold</td>
</tr>
<tr>
<td>A broadly weaker USD provides an additional tailwind for gold prices</td>
<td>Physical demand has been relatively subdued, but seasonal buying could provide a floor for prices</td>
</tr>
</tbody>
</table>

The precious metal remains a safe-haven asset and continues to offer investors diversification benefits. Central bank buying also remains supportive of net demand for gold

SCB’s net assessment

Source: Standard Chartered Global Investment Committee

Fig. 2 Still-elevated global policy uncertainty supportive of gold

Gold (USD/oz), Global economic policy uncertainty* (RHS)

Source: Baker, Bloom and Davis, Refinitiv, Standard Chartered

*For more information on the index, visit policyuncertainty.com

Fig. 3 Real bond yields unlikely to rise significantly from here, limiting gold’s downside

Gold prices (USD/oz), 10-year US TIPS* (%), inverted; RHS

Source: Refinitiv, Standard Chartered

*Real bond yields are proxied by US Treasury Inflation Protected securities
Alternatives – at a glance

Key themes

We see Alternative strategies (see page 58-59 for a brief description) as a useful addition to a traditional, long-only stock/bond portfolio. Alternative strategies give exposure to sources of return which may not be directly accessible via long-only investments in stocks and bonds. Incorporating Alternatives may therefore enhance the diversification of traditional portfolios across a broader set of fundamental drivers and investment opportunities. We maintain Alternatives as a core holding into 2020.

Within Alternatives, we prefer Equity Hedge strategies given our positive outlook for equity markets coupled with wider performance dispersion between individual stocks and sectors. Such conditions tend to generate a rich set of investment opportunities for Equity Hedge strategies.

Key chart

Performance dispersion within equities generally widens as the cycle lengthens, creating opportunities for Equity Hedge

Performance dispersion is the difference in average monthly performance of the top five and bottom five GICS industry groups of the S&P 500 Index, displayed as a 12-month moving average.


Preference order

Equity Hedge

- We prefer Equity Hedge, given our expectations of wider performance dispersion within equities, driven by a positive trend in equities, modestly higher equity volatility and low, stable inter-stock correlations. Sudden equity sell-offs and sector or factor rotations are key risks.

- Equity dispersion
- Equity trend

Global Macro

- We regard Global Macro as a core holding. Outside of equities, we do not anticipate significant trends in other markets. At the same time, there may be higher volatility and rangebound cross-asset correlation. In our view, these are not outstanding conditions for this strategy. Nevertheless, Global Macro remains a useful ‘diversifier’, as it tends to deliver positive returns in times of significant risk aversion.

- Broad market trends
- Cross-asset dispersion
- Cross-asset volatility

Relative Value

- We view Relative Value as a core holding. From our perspective, the wider range of opportunities expected to arise from higher bond volatility should be evaluated against the backdrop of potentially costlier funding for levered arbitrage trades that are the main stay of this strategy.

- Credit spreads
- Cost of Funding

Event Driven

- We view Event Driven as a core holding, in view of the stable outlook for M&A activity. The upside risk is a surge in M&A activity as firms seek to complete deals ahead of political deadlines (e.g. US elections, end of Brexit transition period).

- M&A activity
- Equity trend
- Credit spreads

Source: Bloomberg, Standard Chartered. Traffic lights denote impact of factor on potential bond returns.

Legend: ▲ Most preferred | ▼ Less preferred | ◆ Core holding | ○ Not supportive | ◊ Neutral | ● Supportive | □ Key driver
The what and why of alternatives investing

**Equity Hedge**

**What it is**
Equity Hedge aims to buy undervalued stocks and short overvalued ones

Equity Hedge is suitable for investors seeking returns from managers’ stock-picking acumen while constraining their exposure to broad market swings

**Preferred** – We expect a positive trend in equities, modestly higher equity volatility and low, stable inter-stock correlations to generate wider performance dispersion within equities and hence a rich set of opportunities for Equity Hedge

**Event Driven**

**What it is**
Event Driven strategies take positions to profit from mergers, acquisitions, spin-offs and other corporate events

**Core Holding** – We expect M&A activity to continue at a stable pace, while corporate borrowing costs remain low
**Global Macro**

**What it is**
Global Macro rides on themes, trends and structural changes across multiple asset classes, generally with leverage, and independent of market direction.

Global Macro is a ‘diversifier’ that hedges traditional stock/bond portfolios in times of significant risk aversion.

**Core Holding**
Outside equities, significant trends may not materialise in other markets; in combination with higher volatility and moderate cross-asset correlation, this makes for decent but not outstanding conditions for Global Macro.

**Relative Value**

**What it is**
Relative Value exploits discrepancies in price and value between closely-related financial instruments, typically in fixed income and volatility.

This asset class broadens an investor’s opportunity set and adds potentially uncorrelated sources of return to traditional stock/bond portfolios.

**Core Holding**
The better opportunity set expected to arise from higher bond volatility may be offset by potentially costlier leverage and higher margin requirements for arbitrage trades.
In 2020, our central scenario of stabilising global growth and subdued inflation should support pro-growth assets. Income assets should continue to be cushioned by low yields and accommodative monetary policy globally.

Against this backdrop, we add risk asset exposure moderately to global/Asia-focused balanced and global multi-asset income allocations. Both strategies are expected to deliver positive total returns in the next 12 months.

Our proposed multi-asset income allocation currently yields 4.3% compared to 5.1% at the start of 2019 as yields on offer have dropped significantly, suggesting that income expectations should be adjusted downward.

Diversification will become increasingly important in 2020 as we progress further into the later stages of the economic cycle. Gold and DM IG government bonds should provide downside protection during likely bouts of market volatility.

Asset class preferences and historical average 12-month return of global and Asia-focused balanced and global multi-asset income allocations under different economic scenarios (Oct 2005 – Nov 2019).

<table>
<thead>
<tr>
<th>Global growth rising and inflation falling</th>
<th>Global growth rising and inflation rising</th>
<th>Global growth falling and inflation rising</th>
<th>Global growth falling and inflation falling</th>
</tr>
</thead>
<tbody>
<tr>
<td>Most preferred: Equity</td>
<td>Credit</td>
<td>Rates</td>
<td>Most preferred: Equity</td>
</tr>
<tr>
<td>Global: 12.0%</td>
<td>Asia-focused: 12.4%</td>
<td>Global: 10.2%</td>
<td>Asia-focused: 10.8%</td>
</tr>
<tr>
<td>Key driver of total return: High positive price return</td>
<td>Key driver of total return: Moderately positive price return</td>
<td>Key driver of total return: Income</td>
<td>Key driver of total return: Income</td>
</tr>
<tr>
<td>Most preferred: REITs</td>
<td>Dividend equities</td>
<td>DM High yield</td>
<td>EM HC Govt</td>
</tr>
</tbody>
</table>
| Global MAI: 13.3% | Global MAI: 9.1% | Global MAI: 2.6% | Global MAI: 10.6% | Source: Standard Chartered Global Investment Committee. For indices used, refer to end note at the end of this section. Allocations used in this section are Asia-focused, Global balanced and global multi-asset income tactical allocations for a moderate risk profile.
Big picture – Multi-year asset class returns & volatility
Lower return expected going forward

Our Global Investment Committee collaborates with Mercer Consulting to generate proprietary seven-year forward-looking asset class return and volatility forecasts as inputs for our Global Investment Committee. Comparing asset class returns on both a historical and a forward-looking basis, we can derive a few implications for investors:

• Over the last 10 years, ultra-loose monetary policies by major central banks globally led to a supportive environment for risky assets and strong returns in equity and bond markets with relatively subdued volatility.

• Looking forward, we do not expect to see bond markets experiencing the same equity-like returns as global interest rates and yields rise from their current extremely depressed levels. Bond volatility is likely to pick up.

• For US equities, expectations for lower dividend income in response to lower earning yields and, for lower economic growth imply lower expected returns vs history. For non-US equity regions, we expect returns to be higher thanks to higher dividend income and higher earning yields. Volatility across equity regions is expected to trend higher.

Fig. 1 Seven-year forecast returns point to lower returns and higher levels for volatility versus history
(2009 – 2019) return/volatility statistics vs. seven-year forecasts (return and volatility are annualised in %)

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Macro Overview</th>
<th>Bonds</th>
<th>Equity</th>
<th>FX</th>
<th>Alternatives</th>
<th>Multi-Asset</th>
<th>Appendix</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th></th>
<th>HISTORICAL</th>
<th>7-YEAR FORECAST</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Return (Ann.)</td>
<td>Volatility (Ann.)</td>
</tr>
<tr>
<td>Cash</td>
<td>1.0</td>
<td>0.3</td>
</tr>
<tr>
<td>Global Bonds</td>
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</tr>
<tr>
<td>Global Equity</td>
<td>9.0</td>
<td>13.2</td>
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<tr>
<td>Gold</td>
<td>2.8</td>
<td>16.5</td>
</tr>
<tr>
<td>Alternatives</td>
<td>1.2</td>
<td>4.0</td>
</tr>
<tr>
<td>DM IG Govt Bonds</td>
<td>1.7</td>
<td>5.4</td>
</tr>
<tr>
<td>DM IG Corp Bonds</td>
<td>3.9</td>
<td>5.2</td>
</tr>
<tr>
<td>DM HY Corp Bonds</td>
<td>7.3</td>
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</tr>
<tr>
<td>EM Bonds</td>
<td>6.8</td>
<td>6.1</td>
</tr>
<tr>
<td>North America Equity</td>
<td>13.3</td>
<td>12.6</td>
</tr>
<tr>
<td>Europe ex-UK Equity</td>
<td>5.2</td>
<td>17.3</td>
</tr>
<tr>
<td>UK Equity</td>
<td>5.1</td>
<td>15.0</td>
</tr>
<tr>
<td>Japan Equity</td>
<td>6.3</td>
<td>12.9</td>
</tr>
<tr>
<td>Asia ex-Japan Equity</td>
<td>6.0</td>
<td>16.3</td>
</tr>
<tr>
<td>Other EM Equity</td>
<td>0.1</td>
<td>20.5</td>
</tr>
</tbody>
</table>

Source: Mercer Consulting, Bloomberg, Standard Chartered. For indices used, refer to end note at the end of this section.
Arrow up/down indicates directional changes between new forward looking data vs. history.

Outlook 2020 61
Big picture – Multi-year asset class returns & volatility
A very different risk/return dynamic going forward

In figure 2, below, we have used broad asset classes to construct two “efficient frontiers” using the past 10 years and our new forward-looking data. There are two clear findings for investors’ asset allocation decision making process:

• Most likely, the “efficient frontier” has fallen dramatically and shifted further to the right. The implication is that similar allocations will deliver a lower level of return for an increased level of risk compared to previous cycles. This also means investors need to take a position further along the frontier to earn returns close to historical level. For example, in the past, global bonds delivered 2% with 5% volatility while looking forward, we only expect them to earn 1% return with higher volatility, 6%.

• Today’s environment of lower returns and greater market fluctuations, although challenging, continues to present opportunities. Investors should appreciate the changing dynamic of lower returns across asset classes when looking at risk-reward expectation for their investment allocations.

Fig. 2 Looking forward, asset allocation decisions will have to adapt to shift in risk/return characteristics
Efficient frontiers using 10 years of historical and 7-year expected data

Source: Mercer Consulting, Bloomberg, Standard Chartered. For indices used, refer to end note at the end of this section.
Positioning our 2020 Balanced and Multi-Asset Income allocations

Global and Asia-focused balanced allocations (for investors focused on total returns, rather than income)

- We are adding greater weights to risk assets in both global and Asia-focused balanced allocations to benefit from a macroeconomic environment that is supportive for growth assets.

- Within equities, US and Euro area equities remain the largest exposure in both allocations. Within bonds, EM bonds are a key holding with the tilt toward EM bonds larger for our Asia-focused balanced allocation.

- In addition to idiosyncratic and geopolitical risks, we believe late-cycle volatility is one of the key risks to consider when allocating for 2020-2021. Historical studies show that asset market volatility tends to pick up materially when global growth falls, especially if inflation is expected to pick up. In such instances, diversification into safe-havens such as Gold and DM IG government bonds remain beneficial as these assets could provide a protection buffer (see Fig. 7).

We add risk asset exposure to both global and Asia-focused allocations while maintaining a reasonable weight of DM IG government bonds and gold.

Fig. 3 Key changes in our global and Asia-focused balanced allocations

Increase weight to:
- Overall equities exposure with a preference toward Europe ex-UK and US equities
- DM IG government bonds as a balance against a larger equity position
- Cash and gold as a protection buffer against adverse market developments

Reduce weight to:
- Overall bond allocation to fund a larger weight to equities
- DM IG corporate bonds in view of expensive valuations and weaker fundamentals

Source: Standard Chartered Global Investment Committee

Fig. 4 Our proposed global and Asia-focused balanced allocations for 2020

Cash 4%
Gold 6%
Alternatives 10%

Equity 42%
North America 14%
Euro ex-UK 10%
UK 2%
Japan 2%
Asia ex-Japan 11%
Other EM 4%

Bonds 38%
DM IG Govt 3%
DM IG Corp 4%
DM HY Corp 5%
EM HC Govt 9%
EM LC Govt 9%
Asia USD 9%

Cash 4%
Gold 6%
Alternatives 10%

Equity 42%
North America 22%
Euro ex-UK 5%
UK 2%
Japan 2%
Asia ex-Japan 8%
Other EM 4%

Bonds 38%
DM IG Govt 3%
DM IG Corp 7%
DM HY Corp 7%
EM HC Govt 7%
EM LC Govt 7%
Asia USD 7%

Source: Standard Chartered Global Investment Committee. Allocation figures may not sum up to 100% due to rounding effects. Return figures take into account the changes in allocations we made as we went through 2019 and are from 10 December 2018 to 13 December 2019.

Outlook 2020 63
Global multi-asset income allocation (for income-focused investors)

- Our 2020 proposed multi-income allocation currently yields 4.3%, as opposed to 5.1% at the start of 2019, as yields on offer have dropped significantly.

- Back-test results (see Fig. 7) show that: (1) our proposed diversified income allocation can generate positive price returns on top of target incomes in our central scenario of rising global growth; (2) 2020 macro environment is also likely to be supportive for non-core components (sub-financials, REITs, covered calls). Historically, when growth is expected to rise, these assets could help enhance the allocation’s total return with strong price returns and provide diversification benefits given their low correlation with traditional income assets.

- Putting aside country-specific and geopolitical risks, late-cycle asset volatility can lead to negative price returns, a key concern of income-focused investors. We continue to believe diversification globally across asset types (traditional vs. non-traditional) remains the most appropriate approach to manage this risk without compromising an investor’s income goals.

Fig. 5 Key changes in our global multi-asset income allocation

<table>
<thead>
<tr>
<th>Increase weight to:</th>
<th>Reduce weight to:</th>
</tr>
</thead>
<tbody>
<tr>
<td>High dividend yielding equities for attractive valuations, capital appreciation potential in a stabilising growth environment</td>
<td>Covered call strategy given its less attractive yield and limited capital upside</td>
</tr>
<tr>
<td>Sub-financials for their attractive yield, improving bank credit quality</td>
<td>DM high yield bonds due to credit quality concerns</td>
</tr>
<tr>
<td>DM IG government bonds to balance higher exposure in equity</td>
<td>DM IG corporate bonds in view of expensive valuations and weaker fundamentals</td>
</tr>
<tr>
<td>EM local currency government bonds for their attractive yield and likely gains from a weaker USD</td>
<td></td>
</tr>
</tbody>
</table>

Source: Standard Chartered Global Investment Committee

Fig. 6 Our proposed multi-asset income allocation for 2020

Global Multi-Asset Income Allocation

<table>
<thead>
<tr>
<th>Bonds</th>
<th>54%</th>
</tr>
</thead>
<tbody>
<tr>
<td>DM IG Govt</td>
<td>3%</td>
</tr>
<tr>
<td>DM IG Corp</td>
<td>4%</td>
</tr>
<tr>
<td>DM HY Corp &amp; Senior Floating Rate Loans</td>
<td>14%</td>
</tr>
<tr>
<td>EM HC Govt</td>
<td>13%</td>
</tr>
<tr>
<td>EM LC Govt</td>
<td>8%</td>
</tr>
<tr>
<td>Asia USD bonds</td>
<td>13%</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity</td>
<td>29%</td>
</tr>
<tr>
<td>Non-Core</td>
<td>17%</td>
</tr>
<tr>
<td>Covered Calls</td>
<td>6%</td>
</tr>
<tr>
<td>Sub-financials</td>
<td>8%</td>
</tr>
<tr>
<td>Others</td>
<td>3%</td>
</tr>
</tbody>
</table>

Global High Dividend Equity 29%

Total return since 2019 Outlook 13.2%

Source: Standard Chartered Global Investment Committee. Allocation figures may not sum up to 100% due to rounding effects. Return figures take into account the changes in allocations we made as we went through 2019 and are from 10 December 2018 to 13 December 2019.
Fig. 7 Asset class performances in different economic scenarios

Average 12m return of various asset classes in different economic scenarios

**OUR 2020 CENTRAL SCENARIO**

<table>
<thead>
<tr>
<th>Key driver</th>
<th>Income</th>
<th>Price return</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global Growth Rising and Inflation Falling</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Global Growth Rising and Inflation Rising</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Global Growth Falling and Inflation Rising</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Global Growth Falling and Inflation Falling</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Breakdown of Global multi-asset income allocation’s total return in different economic scenarios (Oct 2005 – Nov 2019)

Return & volatility of global and Asia-focused balanced allocations in different economic scenarios (Oct 2005 – Nov 2019)

Source: Bloomberg, Standard Chartered. For indices used, refer to end note at the end of this section. Economic scenarios are identified by BCA research data of global growth/inflation quadrants across business cycles. Allocations used in this section are global and Asia-focused balanced and Global multi-asset income tactical allocations for a moderate risk profile. For references to Contingent Convertibles (CoCos) in this publication, please refer to explanatory notes on page 80.
### Outlook for multi-asset income allocation

<table>
<thead>
<tr>
<th>Asset Classes</th>
<th>Yield</th>
<th>Income Potential</th>
<th>View</th>
<th>Maximum Drawdown</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fixed Income</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DM government</td>
<td>1.0%</td>
<td>○</td>
<td>○</td>
<td>●</td>
<td>The high credit quality is offset by the low yields on offer and our expectation of modestly higher yields. A renewed growth slowdown is an upside risk</td>
</tr>
<tr>
<td>DM IG corporate*</td>
<td>2.1%</td>
<td>○</td>
<td>○</td>
<td>●</td>
<td>The high credit quality is more than offset by relatively expensive valuations, high interest rate sensitivity and increasing corporate leverage</td>
</tr>
<tr>
<td>DM HY corporate*</td>
<td>5.9%</td>
<td>●</td>
<td>○</td>
<td>○</td>
<td>Attractive yield, reasonable valuations and low interest rate sensitivity are balanced by the risk of rising defaults</td>
</tr>
<tr>
<td>Senior floating rate loans</td>
<td>6.2%</td>
<td>●</td>
<td>○</td>
<td>○</td>
<td>Alternative to traditional HY, with more seniority in capital structure; Rapidly deteriorating credit quality and potential for higher defaults is a risk</td>
</tr>
<tr>
<td>EM USD government</td>
<td>5.1%</td>
<td>●</td>
<td>●</td>
<td>○</td>
<td>Easing macro headwinds for EM bonds, the attractive yield and reasonable valuations are supportive. A sharp rebound in Treasury yields is a risk</td>
</tr>
<tr>
<td>EM local currency government</td>
<td>5.4%</td>
<td>●</td>
<td>●</td>
<td>○</td>
<td>An attractive yield, easier EM central bank policies and our outlook of a weaker USD are supportive. Higher volatility due to FX exposure is a risk</td>
</tr>
<tr>
<td>Asia USD</td>
<td>3.8%</td>
<td>●</td>
<td>●</td>
<td>○</td>
<td>Relatively high credit quality, moderate yield and defensive characteristics. A sharper than expected growth slowdown in China is a risk</td>
</tr>
<tr>
<td><strong>Equity</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Global High Dividend Yield</td>
<td>4.1%</td>
<td>●</td>
<td>○</td>
<td>○</td>
<td>Low government bond yields make alternative income generating assets attractive; weak earnings recovery and higher commodity prices are risks</td>
</tr>
<tr>
<td><strong>Non-core</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Preferred (sub-financials)</td>
<td>5.8%</td>
<td>●</td>
<td>●</td>
<td>○</td>
<td>Attractive yields and exposure to financial sectors; risk from higher rates may not be completely offset by improvement in banks’ underlying credit</td>
</tr>
<tr>
<td>Covered Calls</td>
<td>2.5%</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>Useful income enhancer assuming limited equity downside</td>
</tr>
<tr>
<td>CoCos (sub-financials)</td>
<td>4.2%</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>Attractive yields, relatively low sensitivity to rising yields and improving bank credit quality over the past few years; principal write-down risk</td>
</tr>
</tbody>
</table>

Source: Bloomberg, Standard Chartered. Yield data as of 9 December 2019. *Yield as of the prior month. For indices used, please refer to the end note at the conclusion of this section. The definition of maximum drawdown is the maximum loss from a peak to a trough of an asset over a rolling 12-month period.

Legend: ● Attractive potential/low risk | ○ Moderate potential/medium risk | ○ Unattractive potential/high risk

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)
For investors who want a diversified allocation across major fixed income sectors and regions
Asia-focused allocation

### Higher Income BOND Allocation
For investors who prefer a higher income component to capital returns from their fixed income exposure
Includes exposures to Senior Floating Rate bonds

### EQUITY Allocation (Asia-focused)
For investors who want a diversified allocation across major equity markets and regions
Asia-focused allocation

### NON-CORE INCOME Allocation
For investors who want to diversify exposure from traditional fixed income and equity into “hybrid” assets
Hybrid assets have characteristics of both fixed income and equity
Examples include Covered Calls, REITs, and sub-financials (Preferred Shares and CoCo bonds)

### ALTERNATIVES STRATEGIES Allocation
For investors who want to increase diversification within their allocation
Include both “substitute” and “diversifying” strategies
## Asset allocation summary

<table>
<thead>
<tr>
<th>Summary</th>
<th>View</th>
<th>ASIA FOCUSED</th>
<th>GLOBAL</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Conservative</td>
<td>Moderate</td>
</tr>
<tr>
<td>Cash</td>
<td>▼</td>
<td>12</td>
<td>4</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>◆</td>
<td>64</td>
<td>38</td>
</tr>
<tr>
<td>Equity</td>
<td>▲</td>
<td>24</td>
<td>42</td>
</tr>
<tr>
<td>Gold</td>
<td>▲</td>
<td>0</td>
<td>6</td>
</tr>
<tr>
<td>Alternative Strategies</td>
<td>◆</td>
<td>0</td>
<td>10</td>
</tr>
</tbody>
</table>

## Asset class

<table>
<thead>
<tr>
<th>Asset class</th>
<th>ASIA FOCUSED</th>
<th>GLOBAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>USD Cash</td>
<td>▼</td>
<td>12</td>
</tr>
<tr>
<td>DM Government Bonds*</td>
<td>▼</td>
<td>4</td>
</tr>
<tr>
<td>DM IG Corporate Bonds*</td>
<td>▼</td>
<td>8</td>
</tr>
<tr>
<td>DM HY Corporate Bonds</td>
<td>◆</td>
<td>8</td>
</tr>
<tr>
<td>EM USD Government Bonds</td>
<td>▲</td>
<td>15</td>
</tr>
<tr>
<td>EM Local Ccy Government Bonds</td>
<td>▲</td>
<td>15</td>
</tr>
<tr>
<td>Asia USD Bonds</td>
<td>▲</td>
<td>15</td>
</tr>
<tr>
<td>North America</td>
<td>▲</td>
<td>7</td>
</tr>
<tr>
<td>Europe ex-UK</td>
<td>▲</td>
<td>6</td>
</tr>
<tr>
<td>UK</td>
<td>◆</td>
<td>1</td>
</tr>
<tr>
<td>Japan</td>
<td>◆</td>
<td>1</td>
</tr>
<tr>
<td>Asia ex-Japan</td>
<td>◆</td>
<td>6</td>
</tr>
<tr>
<td>Non-Asia EM</td>
<td>◆</td>
<td>2</td>
</tr>
<tr>
<td>Gold</td>
<td>▲</td>
<td>0</td>
</tr>
<tr>
<td>Alternatives</td>
<td>◆</td>
<td>0</td>
</tr>
</tbody>
</table>

All figures in %. Source: Standard Chartered.

Legend: ▲ Most preferred | ▼ Least preferred | ◆ Core holding

Note: (i) For small allocations we recommend investors to allocate through broader global equity/global bond solutions; (ii) Allocation figures may not sum to 100% due to rounding effects.

*FX-hedged
2019 in review

Trade wars, Brexit uncertainty and growth worries were potholes in a year that eventually delivered robust returns.

A year of event risks

Staying invested was a winning strategy in 2019, despite the plethora of event risks. Since we published our Outlook 2019 (recording performance from 7 December 2018 to 12 December 2019), almost all asset classes delivered strong positive returns. As the chart below illustrates, equities and gold led the pack with >15% returns while bonds and alternative strategies delivered high single-digit returns. All major asset classes did better than cash.

Our Global and Asia-focused moderate-risk Tactical Asset Allocations achieved total returns of 12.3% and 12.1% respectively. Our asset class views (ie. excluding FX) achieved a hit rate of 63%

Unlike 2017 (another year when returns were strong across the board), though, the ride was far from smooth. Since our Outlook 2019, global equities faced c.6-11% drawdowns thrice (December 2018, May 2019 and August 2019), led by Asian equities, as US-China trade tensions surged. On the opposite side, year-to-date returns for gold crossed well over 20% at one point following the August equities sell-off while bonds also benefited from the fall in Treasury yields (ie. rise in Treasury prices) as central banks pivoted towards loosening monetary policy. Meanwhile, the GBP gained amid a volatile journey as it rode the ebbs and flows of the Brexit debate.

Fig. 1 Equities and gold were significant outperformers in 2019. All asset classes beat cash

Major asset class returns and volatility since we published Outlook 2019 last year (10 Dec 2018 to 9 Dec 2019)

Source: Bloomberg, Standard Chartered
Total return Indices used are FTSE WorldBIG ex-MBS, JPMorgan EMBI, JPMorgan EM local, FTSE WorldBIG corporates, Bloomberg Barclays Global High Yield, JPMorgan JACI Corporate
What worked well

At a big picture level, our preference for global equities (for a large part of the year) and gold (from mid-year onwards) worked well. This barbell-like strategy captured what ended up being two of the best performing asset classes in 2019. What also worked equally well was our decision to move cash back down to least preferred from mid-year – every major asset class offered better returns compared to staying in cash.

Fig. 2 Performance of key themes since Outlook 2019

<table>
<thead>
<tr>
<th>Theme</th>
<th>Open Date</th>
<th>Close Date</th>
<th>Relative</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gold to <strong>outperform</strong> other level 1 asset classes</td>
<td>01-Jul-19</td>
<td>13-Dec-19</td>
<td>✓</td>
</tr>
<tr>
<td>Cash to <strong>underperform</strong> other level 1 asset classes</td>
<td>01-Jul-19</td>
<td>13-Dec-19</td>
<td>✓</td>
</tr>
<tr>
<td>Alternatives to <strong>underperform</strong> other level 1 asset classes</td>
<td>29-Aug-19</td>
<td>31-Oct-19</td>
<td>✓</td>
</tr>
<tr>
<td>Global equities to <strong>outperform</strong> other level 1 asset classes</td>
<td>26-Sep-19</td>
<td>13-Dec-19</td>
<td>✓</td>
</tr>
<tr>
<td>Cash to <strong>outperform</strong> other level 1 asset classes</td>
<td>07-Dec-18</td>
<td>31-Jan-19</td>
<td>✗</td>
</tr>
<tr>
<td>Global equities to <strong>outperform</strong> other level 1 asset classes</td>
<td>28-Feb-19</td>
<td>29-Aug-19</td>
<td>✗</td>
</tr>
<tr>
<td>Cash to <strong>underperform</strong> other level 1 asset classes</td>
<td>28-Mar-19</td>
<td>30-May-19</td>
<td>✗</td>
</tr>
</tbody>
</table>

Source: Bloomberg, Standard Chartered
Performance measured from date view was opened to 13 December 2019 or when the view was closed
Legend: ✓ – Correct call; ✗ – Missed call; n/a – Not Applicable; Past performance is not an indication of future performance. There is no assurance, representation or prediction given as to any results or returns that would actually be achieved in a transaction based on any historical data.

The two significant challenges

The far-from-smooth ride described earlier meant that two specific views faced some challenges in 2019.

The first was our decision to prefer cash in December 2019 immediately following our Outlook 2019 publication. This decision initially proved to be the right one as risky assets fell almost till the end of the year. However, equities rebounded sharply thereafter, causing us to lose more in January than what we gained in December.

Having said that, this was mitigated by our view to tactically prefer equities in mid-January (see Weekly Market View, 18th January 2019). Global equities subsequently gained over 7% since this view was published, underscoring our upgrade.

The second challenge was the breakdown in US-China trade talks in early May, which hurt us due to our strong preference at the time both for global equities and, within that, for Asia ex-Japan regionally. This hurt returns for the month significantly. However, this underperformance was gradually reversed over the rest of the year.
Our asset class winners and losers

Within equities, Developed Markets generally outperformed Emerging Markets. The performance of our calls reflects this: our early-2019 call on Euro area equities and, later, our preference for US equities were key positive drivers of our performance in equities. However, our preference for Asian equities struggled, especially in the early-May trade-related drawdowns.

Fig. 3 Performance of key themes since Outlook 2019

<table>
<thead>
<tr>
<th>Equities Views</th>
<th>Open Date</th>
<th>Close Date</th>
<th>Relative</th>
</tr>
</thead>
<tbody>
<tr>
<td>Euro area equities to underperform global equities</td>
<td>07-Dec-18</td>
<td>28-Mar-19</td>
<td>✓</td>
</tr>
<tr>
<td>Japan equities to underperform global equities</td>
<td>25-Apr-19</td>
<td>25-Jul-19</td>
<td>✓</td>
</tr>
<tr>
<td>US equities to outperform global equities</td>
<td>30-May-19</td>
<td>13-Dec-19</td>
<td>✓</td>
</tr>
<tr>
<td>UK equities to underperform global equities</td>
<td>25-Jul-19</td>
<td>26-Sep-19</td>
<td>✓</td>
</tr>
<tr>
<td>Asia ex-Japan equities to outperform global equities</td>
<td>25-Jul-19</td>
<td>29-Aug-19</td>
<td>✓</td>
</tr>
<tr>
<td>Asia ex-Japan equities to outperform global equities</td>
<td>31-Jan-19</td>
<td>30-May-19</td>
<td>✓</td>
</tr>
<tr>
<td>US equities to outperform global equities</td>
<td>07-Dec-18</td>
<td>28-Feb-19</td>
<td>✓</td>
</tr>
<tr>
<td>Japan equities to outperform global equities</td>
<td>29-Aug-19</td>
<td>13-Dec-19</td>
<td>✓</td>
</tr>
<tr>
<td>Euro area equities to outperform global equities</td>
<td>31-Oct-19</td>
<td>13-Dec-19</td>
<td>✓</td>
</tr>
</tbody>
</table>

Source: Bloomberg, Standard Chartered
Performance measured from date view was opened to 13 December 2019 or when the view was closed
Legend: ✓ – Correct call; ✗ – Missed call; n/a – Not Applicable; Past performance is not an indication of future performance. There is no assurance, representation or prediction given as to any results or returns that would actually be achieved in a transaction based on any historical data.

Our preferences within bonds worked well, benefiting from the significant US Treasury tailwind. Our preference for EM bonds (particularly EM USD government bonds) was a key source of outperformance. The US Treasury tailwind, though, meant that government bonds performed much stronger than we expected.

Fig. 4 Performance of key themes since Outlook 2019

<table>
<thead>
<tr>
<th>Bonds Views</th>
<th>Open Date</th>
<th>Close Date</th>
<th>Relative</th>
</tr>
</thead>
<tbody>
<tr>
<td>EM USD government bonds to outperform global bonds</td>
<td>07-Dec-18</td>
<td>30-May-19</td>
<td>✓</td>
</tr>
<tr>
<td>Asia USD bonds to outperform global bonds</td>
<td>28-Feb-19</td>
<td>28-Mar-19</td>
<td>✓</td>
</tr>
<tr>
<td>DM HY bonds to underperform global bonds</td>
<td>28-Feb-19</td>
<td>28-Mar-19</td>
<td>✓</td>
</tr>
<tr>
<td>EM USD government bonds to outperform global bonds</td>
<td>01-Jul-19</td>
<td>13-Dec-19</td>
<td>✓</td>
</tr>
<tr>
<td>DM IG government bonds to underperform global bonds</td>
<td>25-Jul-19</td>
<td>13-Dec-19</td>
<td>✓</td>
</tr>
<tr>
<td>Asia USD bonds to outperform global bonds</td>
<td>26-Sep-19</td>
<td>13-Dec-19</td>
<td>✓</td>
</tr>
<tr>
<td>EM local currency government bonds to outperform global bonds</td>
<td>31-Oct-19</td>
<td>13-Dec-19</td>
<td>✓</td>
</tr>
<tr>
<td>Asia USD bonds to outperform global bonds</td>
<td>25-Apr-19</td>
<td>30-May-19</td>
<td>✓</td>
</tr>
<tr>
<td>DM government bonds to underperform global bonds</td>
<td>25-Apr-19</td>
<td>30-May-19</td>
<td>✓</td>
</tr>
<tr>
<td>Developed Market (DM) High Yield (HY) bonds to underperform global bonds</td>
<td>07-Dec-18</td>
<td>31-Jan-19</td>
<td>✓</td>
</tr>
</tbody>
</table>

Source: Bloomberg, Standard Chartered
Performance measured from date view was opened to 13 December 2019 or when the view was closed
Legend: ✓ – Correct call; ✗ – Missed call; n/a – Not Applicable; Past performance is not an indication of future performance. There is no assurance, representation or prediction given as to any results or returns that would actually be achieved in a transaction based on any historical data.
Within alternative strategies, trending markets early in the year meant our preference for macro strategies and equity long/short outperformed. Early 2019 expectations that borrowing costs would continue to rise meant our expectation that event-driven strategies would underperform also worked well.

Fig. 5 Performance of key themes since Outlook 2019

<table>
<thead>
<tr>
<th>Alternatives Views</th>
<th>Open Date</th>
<th>Close Date</th>
<th>Relative</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global Macro strategies to outperform other strategies</td>
<td>07-Dec-18</td>
<td>28-Mar-19</td>
<td>✓</td>
</tr>
<tr>
<td>Event Driven to underperform other alternative strategies</td>
<td>07-Dec-18</td>
<td>28-Mar-19</td>
<td>✓</td>
</tr>
<tr>
<td>Equity Hedge strategies to outperform other strategies</td>
<td>28-Feb-19</td>
<td>28-Mar-19</td>
<td>✓</td>
</tr>
<tr>
<td>Event Driven to underperform other alternative strategies</td>
<td>30-May-19</td>
<td>25-Jul-19</td>
<td>✓</td>
</tr>
</tbody>
</table>

Source: Bloomberg, Standard Chartered
Performance measured from date view was opened to 13 December 2019 or when the view was closed
Legend: ✓ – Correct call; X – Missed call; n/a – Not Applicable; Past performance is not an indication of future performance. There is no assurance, representation or prediction given as to any results or returns that would actually be achieved in a transaction based on any historical data.

Currencies, though, was one asset class where our views were challenged. Our long-standing positive view on the GBP worked well (albeit with a far-from-smooth journey) as did our short-lived positive view on JPY. However, most of our views were challenged by continued USD strength, despite relative interest differentials moving consistently against the Dollar for most of the year.

Fig. 6 Performance of key themes since Outlook 2019

<table>
<thead>
<tr>
<th>Currencies Views</th>
<th>Open Date</th>
<th>Close Date</th>
<th>Relative</th>
</tr>
</thead>
<tbody>
<tr>
<td>FX</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>JPY to strengthen against the USD</td>
<td>25-Jul-19</td>
<td>26-Sep-19</td>
<td>✓</td>
</tr>
<tr>
<td>EUR to strengthen against the USD</td>
<td>26-Sep-19</td>
<td>13-Dec-19</td>
<td>✓</td>
</tr>
<tr>
<td>GBP to strengthen against the USD</td>
<td>07-Dec-18</td>
<td>13-Dec-19</td>
<td>✓</td>
</tr>
<tr>
<td>USD to weaken</td>
<td>31-Oct-19</td>
<td>13-Dec-19</td>
<td>✓</td>
</tr>
<tr>
<td>CNY to weaken</td>
<td>07-Dec-18</td>
<td>31-Jan-19</td>
<td></td>
</tr>
<tr>
<td>EUR to strengthen against the USD</td>
<td>31-Jan-19</td>
<td>28-Feb-19</td>
<td>X</td>
</tr>
<tr>
<td>EUR to strengthen against the USD</td>
<td>28-Mar-19</td>
<td>30-May-19</td>
<td>X</td>
</tr>
<tr>
<td>USD to weaken</td>
<td>28-Mar-19</td>
<td>30-May-19</td>
<td>X</td>
</tr>
<tr>
<td>EUR to strengthen against the USD</td>
<td>01-Jul-19</td>
<td>29-Aug-19</td>
<td>X</td>
</tr>
<tr>
<td>USD to weaken</td>
<td>01-Jul-19</td>
<td>29-Aug-19</td>
<td>X</td>
</tr>
</tbody>
</table>

Source: Bloomberg, Standard Chartered
Performance measured from date view was opened to 13 December 2019 or when the view was closed
Legend: ✓ – Correct call; X – Missed call; n/a – Not Applicable; Past performance is not an indication of future performance. There is no assurance, representation or prediction given as to any results or returns that would actually be achieved in a transaction based on any historical data.
How we generate investment views
Our adaptive process

We have a robust advisory process ensuring we deliver high-quality insights and solutions to our clients.

01 OPEN-PLATFORM INPUTS
Third party market views as diverse as possible are curated from leading research boutiques, banks and asset management companies to harness the collective intelligence of our network.

02 DISCUSS & DEBATE
Once a month, these curated questions, insights and analysis are shared and digested by the Global Investment Committee (GIC) members through a rigorous debating process to ensure full consideration is given to diverse perspectives.

03 INVESTMENT STRATEGY DECISIONS
Decisions are not based on consensus. GIC members vote anonymously on key questions and decisions to form final house views. Voting process involves a detailed questionnaire and all individual results are tracked to identify key trends associated with house views.

04 ADVISORY COMMUNICATION
The results of the vote are organised to form our “House Views” and articulated by our Investment Strategists through investment publications; they are communicated immediately to all our global and local product teams.

05 RELEVANT & ACTIONABLE CONVICTIONS
GIC ideas and themes are discussed with product and country teams to formulate conviction lists of relevant investment opportunities for our clients.

06 COMMUNICATION TO CLIENTS
Our “House views” and conviction-based investment opportunities reach our clients through our various publications, relationship managers and investment advisors.

07 THOROUGH REVIEW
Investment results of our House views and conviction-based opportunities are thoroughly reviewed together with all the quantitative data collected during the voting process.
The rise of ESG investing

2019 was the year where many sustainability issues came to the forefront and this is set to accelerate in 2020, with an increasing number of businesses having it on their corporate agendas as material risks and opportunities – from climate change to data privacy and diversity and inclusion.

According to a global survey by the UN Principles for Responsible Investment (PRI) network and the CFA Institute, more than 50% of investors in Asia Pacific believe that environmental and social factors will impact share prices by 2022. The figures are similar for investors in Europe, the Middle East and Africa.

Governance is the ESG (environmental, social and governance) factor most investors are integrating into their process, while environmental and social factors are increasingly gaining acceptance. The main drivers of ESG integration are risk management and increasing client demand.

With increasing demand, fund managers in both public and private markets are also building their capabilities to meet the needs of its investors.

According to Morningstar, approximately USD 41 billion flowed into European sustainable fund products in the first half of 2019, more than any other semi-annual period. In addition, the report also noted that sustainable equity funds benefited from inflows while conventional equity funds suffered from net outflows. To match investor demand, there was a 27% increase in the number of ESG fund launches from 2017 to 2018, and the pace in 2019 is on track to match or even exceed the number of new product offerings in 2018.

However, ESG integration remains in its relative infancy, with investors calling for more guidance on exactly “how” they can “do ESG” and integrate ESG data into their portfolios. On top of that, there are also concerns of “greenwashing” or “ESG-washing”, where fund manager claims of ESG integration are exaggerated.

Fig. 1 Impact of ESG issues in 2017 and the expected impact in 5 years’ time (2022) on share prices, corporate bond yields/spreads and sovereign debt yields

<table>
<thead>
<tr>
<th>ESG ISSUES IMPACT ON SHARE PRICES</th>
<th>AFFECTED IN 2017</th>
<th>AFFECTED IN 2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Governance</td>
<td>64%</td>
<td>73%</td>
</tr>
<tr>
<td>Environmental</td>
<td>24%</td>
<td>59%</td>
</tr>
<tr>
<td>Social</td>
<td>30%</td>
<td>55%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>ESG ISSUES IMPACT ON CORPORATE BOND YIELDS/SPREADS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Governance</td>
</tr>
<tr>
<td>Environmental</td>
</tr>
<tr>
<td>Social</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>ISSUES IMPACT ON SOVEREIGN DEBT YIELDS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Governance</td>
</tr>
<tr>
<td>Environmental</td>
</tr>
<tr>
<td>Social</td>
</tr>
</tbody>
</table>

Note: Percentages represent respondents who answered “often” or “always”

1. ESG Integration in Asia Pacific: Markets, Practices and Data, UN PRI and CFA Institute
2. ESG Integration in Europe, the Middle East and Africa: Markets, Practices and Data, UN PRI and CFA Institute
How to get started with ESG investing?

ESG investing is the use of ESG criteria as a set of standards to screen for potential investments, which allows for alignment with the investor’s values or interests. Investors can choose from various ESG investment strategies such as:

• **Exclusionary screening**
  When exclusion screens are applied, stocks are excluded from an investment universe which prevents investors from investing in companies not aligned with their values. Some common exclusions are tobacco, pornography, gambling and civil weapons and most, if not all, ESG funds employ exclusions to some extent.

• **ESG integration**
  ESG integration refers to the systematic consideration of ESG factors alongside financial metrics in the analysis of a company. In a sophisticated ESG integration strategy, ESG factors will be weighted accordingly by the materiality of those factors depending on the sector. For example, health and safety metrics will be more relevant for a mining company than in the financial industry. A sample list of high level ESG metrics by category can be seen below:

  ![ESG Metrics Diagram]
  Source: Refinitiv

- **Environmental**
  - Resource Use
  - Emissions
  - Innovation

- **Social**
  - Workforce
  - Human Rights
  - Community
  - Product Responsibility

- **Governance**
  - Management
  - Shareholders
  - Corporate Social Responsibility (CSR Strategy)

• **Best-in-class/positive screening**
  Unlike exclusionary screening, best-in-class or positive screening is the active and intentional selection of companies that display leading sustainability practices based on ESG factors. The idea is that strong ESG performers are companies better positioned to outperform their peers, encouraging companies to improve their ESG score. For example, some industries may face a higher stranded asset risk due to environmental issues. How a company responds to future risks can be teased out by analysing specific ESG factors.

• **Sustainability-themed investing**
  Thematic investing focuses on assets linked to a specific area of ESG interest for an investor. These interest areas will address a social and/or environmental issue, sometimes aligned with the Sustainable Development Goals, such as clean water and sanitation, climate action or good health and well-being.

• **Impact investing**
  Impact investing are investments made that have specific targets, typically social or environmental, that the investor would like to solve. This is a strategy more commonly seen in the private markets, although there are also listed equity fund managers launching impact funds.

Of course, ESG investing strategies are not mutually exclusive as multiple strategies can be applied at once, and there are various investment instruments an investor can invest in, both in the public and private markets, where some are higher risk and have a longer lock-in period than others. What is critical is selecting the strategy and investment instrument, that is in line with the investor’s risk profile and financial/non-financial goals are taken into consideration.

Sustainable investing is a space that will continue to grow and evolve as new lessons emerge through successes and failures. Some are ahead of the curve and others are playing catch up, but it has gone mainstream and it is here to stay.
<table>
<thead>
<tr>
<th>Term</th>
<th>Definition/Explanation</th>
<th>Term</th>
<th>Definition/Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>AUD</td>
<td>Australian dollar</td>
<td>Mark-to-Market</td>
<td>Measure of the fair value of a particular asset; Reflection of current market levels</td>
</tr>
<tr>
<td>AxJ</td>
<td>Asia ex-Japan</td>
<td>mMA</td>
<td>x-month moving average</td>
</tr>
<tr>
<td>bbl</td>
<td>barrels</td>
<td>mn</td>
<td>million</td>
</tr>
<tr>
<td>bn</td>
<td>billion</td>
<td>Neutral rate</td>
<td>Fed’s estimated benchmark interest rate at which real US GDP is expected to grow at its trend rate and inflation is expected to remain stable</td>
</tr>
<tr>
<td>BoE</td>
<td>Bank of England</td>
<td>OPEC</td>
<td>Organization of the Petroleum Exporting Countries</td>
</tr>
<tr>
<td>BoJ</td>
<td>Bank of Japan</td>
<td>Outside view</td>
<td>A learning based on data from a class of roughly similar previous cases</td>
</tr>
<tr>
<td>bp</td>
<td>basis point; 0.01%</td>
<td>oz</td>
<td>ounces</td>
</tr>
<tr>
<td>CNY</td>
<td>Chinese yuan (onshore)</td>
<td>PE</td>
<td>Price-earnings</td>
</tr>
<tr>
<td>CoCos</td>
<td>Contingent Convertibles</td>
<td>PMI</td>
<td>Purchasing Managers’ Index</td>
</tr>
<tr>
<td>DM</td>
<td>Developed Market</td>
<td>q/q</td>
<td>quarter-on-quarter</td>
</tr>
<tr>
<td>dMA</td>
<td>x-day moving average</td>
<td>RBA</td>
<td>Reserve Bank of Australia</td>
</tr>
<tr>
<td>DXY</td>
<td>US dollar index</td>
<td>RSI</td>
<td>Relative Strength Index</td>
</tr>
<tr>
<td>EBITDA</td>
<td>Earnings before interest, tax, depreciation and amortization</td>
<td>Senior floating rate loans</td>
<td>A debt financing obligation issued by a bank or similar financial institution to a company or individual that holds legal claim to the borrower’s assets above all other debt obligations. Yields may vary based on changes in benchmark interest rates</td>
</tr>
<tr>
<td>ECB</td>
<td>European Central Bank</td>
<td>SGD</td>
<td>Singaporean dollar</td>
</tr>
<tr>
<td>EM</td>
<td>Emerging Market</td>
<td>Terms of trade (TOT)</td>
<td>The ratio of an index of a country’s export prices to an index of its import prices</td>
</tr>
<tr>
<td>EUR</td>
<td>European Central Bank</td>
<td>trn</td>
<td>trillion</td>
</tr>
<tr>
<td>FOMC</td>
<td>Federal Open Market Committee</td>
<td>USD</td>
<td>US dollar</td>
</tr>
<tr>
<td>FX</td>
<td>Foreign Exchange</td>
<td>VIX</td>
<td>CBOE Volatility Index</td>
</tr>
<tr>
<td>GBP</td>
<td>British pound sterling</td>
<td>wMA</td>
<td>x-week moving average</td>
</tr>
<tr>
<td>GICS</td>
<td>The Global Industry Classification Standard for equities</td>
<td>y/y</td>
<td>year-on-year</td>
</tr>
<tr>
<td>HC</td>
<td>Hard-currency</td>
<td>YTD</td>
<td>Year-to-date</td>
</tr>
<tr>
<td>HDY</td>
<td>High Dividend Yield</td>
<td></td>
<td></td>
</tr>
<tr>
<td>HY</td>
<td>High-yield</td>
<td></td>
<td></td>
</tr>
<tr>
<td>IG</td>
<td>Investment-grade</td>
<td></td>
<td></td>
</tr>
<tr>
<td>INR</td>
<td>Indian rupee</td>
<td></td>
<td></td>
</tr>
<tr>
<td>JPY</td>
<td>Japanese yen</td>
<td></td>
<td></td>
</tr>
<tr>
<td>LCY</td>
<td>Local-currency</td>
<td></td>
<td></td>
</tr>
<tr>
<td>LTV</td>
<td>Loan-to-value</td>
<td></td>
<td></td>
</tr>
<tr>
<td>M&amp;A</td>
<td>Mergers and Acquisitions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>m/m</td>
<td>month-on-month</td>
<td></td>
<td></td>
</tr>
<tr>
<td>trn</td>
<td>trillion</td>
<td></td>
<td></td>
</tr>
<tr>
<td>USD</td>
<td>US dollar</td>
<td></td>
<td></td>
</tr>
<tr>
<td>VIX</td>
<td>CBOE Volatility Index</td>
<td></td>
<td></td>
</tr>
<tr>
<td>wMA</td>
<td>x-week moving average</td>
<td></td>
<td></td>
</tr>
<tr>
<td>y/y</td>
<td>year-on-year</td>
<td></td>
<td></td>
</tr>
<tr>
<td>YTD</td>
<td>Year-to-date</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
2019 markets summary

2019 YTD

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Macro Overview</th>
<th>Bonds</th>
<th>Equity</th>
<th>FX</th>
<th>Alternatives</th>
<th>Multi-Asset</th>
<th>Appendix</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Equity</th>
<th>Country &amp; Region</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Global Equities,</td>
<td>-9.4%</td>
</tr>
<tr>
<td></td>
<td>Global High Div</td>
<td>-6.0%</td>
</tr>
<tr>
<td></td>
<td>Yield Equities</td>
<td>-8.7%</td>
</tr>
<tr>
<td></td>
<td>Emerging Markets</td>
<td>-14.6%</td>
</tr>
<tr>
<td></td>
<td>(EM)</td>
<td>-5.0%</td>
</tr>
<tr>
<td></td>
<td>US</td>
<td>-10.6%</td>
</tr>
<tr>
<td></td>
<td>Western Europe</td>
<td>-14.9%</td>
</tr>
<tr>
<td></td>
<td>(Local)</td>
<td>-15.1%</td>
</tr>
<tr>
<td></td>
<td>Eastern Europe</td>
<td>-12.9%</td>
</tr>
<tr>
<td></td>
<td>(Local)</td>
<td>-19.0%</td>
</tr>
<tr>
<td></td>
<td>Australia</td>
<td>-14.4%</td>
</tr>
<tr>
<td></td>
<td>Asia ex-Japan</td>
<td>-23.7%</td>
</tr>
<tr>
<td></td>
<td>Africa</td>
<td>-4.2%</td>
</tr>
<tr>
<td></td>
<td>Eastern Europe</td>
<td>-6.8%</td>
</tr>
<tr>
<td></td>
<td>Latam</td>
<td>-6.8%</td>
</tr>
<tr>
<td></td>
<td>Middle East</td>
<td>-18.9%</td>
</tr>
<tr>
<td></td>
<td>China</td>
<td>-7.3%</td>
</tr>
<tr>
<td></td>
<td>India</td>
<td>-9.9%</td>
</tr>
<tr>
<td></td>
<td>South Korea</td>
<td>-20.9%</td>
</tr>
<tr>
<td></td>
<td>Taiwan</td>
<td>-8.9%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Equity</th>
<th>Sector</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Consumer Discretionary</td>
<td>-8.9%</td>
</tr>
<tr>
<td></td>
<td>Consumer Staples</td>
<td>-10.5%</td>
</tr>
<tr>
<td></td>
<td>Energy</td>
<td>-13.3%</td>
</tr>
<tr>
<td></td>
<td>Financial</td>
<td>-15.7%</td>
</tr>
<tr>
<td></td>
<td>Healthcare</td>
<td>-14.4%</td>
</tr>
<tr>
<td></td>
<td>Industrial</td>
<td>-5.8%</td>
</tr>
<tr>
<td></td>
<td>IT</td>
<td>-16.0%</td>
</tr>
<tr>
<td></td>
<td>Materials</td>
<td>-10.9%</td>
</tr>
<tr>
<td></td>
<td>Telecom</td>
<td>-1.4%</td>
</tr>
<tr>
<td></td>
<td>Utilities</td>
<td>-5.5%</td>
</tr>
<tr>
<td></td>
<td>Global Property</td>
<td>-0.9%</td>
</tr>
<tr>
<td></td>
<td>Equity/REITs</td>
<td>-1.4%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Bonds</th>
<th>Sovereign</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>DM IG Sovereign</td>
<td>-1.0%</td>
</tr>
<tr>
<td></td>
<td>US Sovereign</td>
<td>0.9%</td>
</tr>
<tr>
<td></td>
<td>EM Sovereign</td>
<td>-4.0%</td>
</tr>
<tr>
<td></td>
<td>EM Sovereign Local Currency</td>
<td>-4.7%</td>
</tr>
<tr>
<td></td>
<td>Asia EM Local Currency</td>
<td>-1.4%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Bonds</th>
<th>Credit</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>DM IG Corporates</td>
<td>-3.6%</td>
</tr>
<tr>
<td></td>
<td>DM High Yield Corporates</td>
<td>-5.5%</td>
</tr>
<tr>
<td></td>
<td>US High Yield</td>
<td>2.1%</td>
</tr>
<tr>
<td></td>
<td>Europe High Yield</td>
<td>-8.2%</td>
</tr>
<tr>
<td></td>
<td>Asia Hard Currency</td>
<td>-0.8%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Commodities</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diversified Commodity</td>
<td>-11.2%</td>
</tr>
<tr>
<td>Agriculture</td>
<td>-12.5%</td>
</tr>
<tr>
<td>Energy</td>
<td>-14.4%</td>
</tr>
<tr>
<td>Industrial Metal</td>
<td>-21.1%</td>
</tr>
<tr>
<td>Precious Metal</td>
<td>-6.4%</td>
</tr>
<tr>
<td>Crude Oil</td>
<td>-7.4%</td>
</tr>
<tr>
<td>Gold</td>
<td>-1.6%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>FX (against USD)</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia ex-Japan</td>
<td>-4.0%</td>
</tr>
<tr>
<td>AUD</td>
<td>-9.7%</td>
</tr>
<tr>
<td>EUR</td>
<td>-4.5%</td>
</tr>
<tr>
<td>GBP</td>
<td>-5.6%</td>
</tr>
<tr>
<td>JPY</td>
<td>-0.2%</td>
</tr>
<tr>
<td>SGD</td>
<td>2.8%</td>
</tr>
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<table>
<thead>
<tr>
<th>Alternatives</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Composite (All strategies)</td>
<td>-0.7%</td>
</tr>
<tr>
<td>Relative Value</td>
<td>-1.2%</td>
</tr>
<tr>
<td>Event Driven</td>
<td>-11.7%</td>
</tr>
<tr>
<td>Equity Long/Short</td>
<td>-9.4%</td>
</tr>
<tr>
<td>Macro CTA's</td>
<td>-3.2%</td>
</tr>
</tbody>
</table>

Source: MSCI, J.P. Morgan, Barclays, Citigroup, Dow Jones, HFRX, FTSE, Bloomberg, Standard Chartered
*All performance shown in USD terms, unless otherwise stated.
The column ‘2019 Year to date’ indicates performance from 31 December 2018 to 30 November 2019.
The column ‘2018’ indicates performance from 31 December 2017 to 31 December 2018.
## 2020 key events

### JANUARY
- 11: Taiwan general election
- 23: ECB policy decision
- 30: FOMC policy decision
- 30: BoE policy decision
- 31: Brexit deadline

### FEBRUARY
- N.A

### MARCH
- 03: US Super Tuesday (Democratic presidential primaries)
- 10: More US Democratic presidential primaries
- 12: ECB policy decision
- 19: FOMC policy decision
- 26: BoE policy decision

### APRIL
- 30: FOMC policy decision
- 30: ECB policy decision

### MAY
- 07: BoE policy decision

### JUNE
- 04: ECB policy decision
- 04-12: G7 summit in the US
- 11: FOMC policy decision
- 18: BoE policy decision

### JULY
- 30: FOMC policy decision
- 30: ECB policy decision

### AUGUST
- 07: BoE policy decision

### SEPTEMBER
- X: China’s President Xi visits Germany for summit with EU state leaders
- 04: ECB policy decision
- 11: FOMC policy decision
- 18: BoE policy decision
- 29: 1st US presidential debate

### OCTOBER
- 15: 2nd US presidential debate
- 22: 3rd US presidential debate
- 29: ECB policy decision
- 29: BoJ policy decision

### NOVEMBER
- 03: US presidential election
- 05: BoE policy decision
- 06: FOMC policy decision
- 21-22: G20 Summit in Saudi Arabia

### DECEMBER
- 10: ECB policy decision
- 17: FOMC policy decision
- 18: BoE policy decision
- 31: Deadline for Brexit transition period

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Central bank policy | Geopolitics | EU politics
Meet the team

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Chair of the Global Investment Committee

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Senior Investment Strategist

Francis Lim  
Senior Investment Strategist

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Marco Iachini, CFA  
Cross-asset Strategist

Marketing Communications: James Lyon
Explanatory notes

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Macro Overview

Outlook 2020
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