News Release

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HSBC GLOBAL ASSET MANAGEMENT CONTINUES TO FAVOUR ASIAN ASSETS IN 2015

****Asia remains attractive despite potential US rate hikes****
****Positive on Chinese equities, Asian cyclical stocks and corporate bonds****
****Medium to long-term potential for RMB bonds****

Equities and corporate bonds, particularly in Asia, remain attractive in 2015 as corporates continue to record strong profitability and offer good valuations, said HSBC Global Asset Management (HSBC). While both asset classes provide opportunities, equities are likely to deliver higher returns than bonds or cash.

Matthew Colebrook, Head of Retail Banking and Wealth Management, HSBC Singapore, said: “In 2015, we will see a divergence in growth expectations for different economies and also in monetary policy globally. The tightening of US monetary policy, which could lead to the first interest rate hike since the global financial crisis, is a major macro event going forward especially for emerging markets. A well-diversified portfolio is essential to capture opportunities across asset classes as investors enter 2015 where heightened volatility is expected.”

The global economy will continue to recover, with lower oil prices supporting growth and reducing inflationary pressure. However, most countries will continue to grow at rates below their potential in 2015, and the relative weakness in global trade compared to the past two decades, will continue to undermine growth in emerging markets.

Nonetheless, historical data suggests that equities tend to deliver positive returns during a recovery phase, and from a cyclical perspective, the outlook is still favourable for equities. While equity returns may not be as stellar as in previous years, attractive valuations and fundamentals still indicate the attractiveness of this asset class over the long term.

Although US interest rates and government bond yields may drift upwards in 2015, they are likely to remain relatively low. Liquidity should remain supportive as aggregate funding by major central banks (US, UK, Europe and Japan) is expected to reach as much as USD11 trillion by `the end of 2016.

China's growth is expected to moderate steadily and is likely to be driven by consumption and be less dependent on investment. Going forward, reforms in state-owned enterprises, Stock Connect (access to China A-shares) and the Chinese government’s monetary easing measures are the three themes governing the performance of the Chinese stock market.

Asian Equities (excluding Japan)

Improving fundamentals in Asia, a stable recovery trend in the US and the Fed's cautious approach on monetary policy, signal that the potential impact of the end of QE programme on Asian equities should be limited. Asia offers more compelling opportunities than other regions in the world. Corporates in Asia continue to show better profitability as a result of improving earnings. Equity valuations have been rising over the past 12 months, yet are still at attractive levels from a long-term return perspective.

Within Asia, HSBC favours equities in North Asia including China, the cheapest market in the region and also one of the cheapest in the world on a valuation basis. Reform implementation in China remains one of the most important drivers for Chinese equities. The Chinese government is expected to continue using targeted policy measures to push forward the reform agenda to ensure growth remains within a reasonable range. HSBC also prefers Indian equities due to their re-rating potential and Korean equities as they are still at low valuations.

From a sector perspective, cyclical stocks, such as technology and financials, continue to look cheap compared to defensive stocks such as consumer staples and healthcare, as these corporates record stronger profitability while still trading at low valuations.

Singapore stock market

The macro backdrop remains challenging. The industrial production and exports in Singapore stayed weak and volatile, amid tepid global growth/trade. Credit growth is decelerating, household debt is high, the property market and construction are cooling and headline inflation is now in the negative territory.

Singapore is vulnerable to the US interest rate increases (local equity indices are dominated by interest rate sensitive stocks). The undemanding valuations on both forward price-to-earnings and price-to-book basis also reflect relatively low ROE than many other Asian markets.

Bill Maldonado, Chief Investment Officer, Asia Pacific and Strategy Chief Investment Officer for Equities, HSBC Global Asset Management, said: "The average return for risk assets over the next ten years is likely to be modest. Investors are likely to be rewarded by being overweight equities over bonds and cash in a diversified portfolio. While volatility is likely to increase in 2015, especially for equities in emerging markets in Asia, there are still attractive long-term opportunities in the equity market. Stock selection based on corporate profitability and valuation remains the key to outperformance in this environment."

Asian Bonds

HSBC is positive on corporate bonds, especially in emerging markets in Asia, and expects the asset class to provide higher risk-adjusted returns than 'safe-haven' developed market government bonds over the long term on the back of a better valuation outlook. Asian corporate credit should remain supported in the near term by ample global liquidity and still reasonable yields.

The outlook for RMB bonds remains positive over the medium to long term, despite anticipation of higher volatility in the USD/RMB exchange market. Besides offering higher yield carry and having exhibited lower volatility in the past, RMB bonds will also benefit from an easing monetary policy bias in China. In addition, the low sensitivity to US interest rate movements is also supportive of good risk-adjusted returns for RMB bonds. In particular, the onshore RMB bond market, one of the largest bond markets in the world, also displays favourable characteristics including low correlation with major asset classes and hence offers attractive diversification opportunity for investors.

Cecilia Chan, Chief Investment Officer of Fixed Income, Asia Pacific, HSBC Global Asset Management, said: "RMB bonds are of growing significance on a global scale. With the opening up of China's capital markets, the onshore Chinese bond market will become too big to ignore for bond investors."

"Despite investors' concerns over the US interest rate hikes, the Asian bond market still presents selective opportunities to investors who are searching for yield in the current low interest rates environment. Credit selection for attractive yield carry will be the investment focus going into 2015," continued Cecilia.

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Notes to Editors

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