News Release

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Economic conditions to remain supportive of equities in 2Q15

Global equity markets, including Asia, to benefit from supportive liquidity conditions*
****Market volatility expected as a result of divergent monetary policies****

Despite concerns over Greece, deflation in the Eurozone, and speculation on the timing of US interest rate hikes, equity markets managed to post positive returns in the first quarter of 2015. According to HSBC Global Asset Management, extremely accommodative monetary conditions, strong earnings growth and still relatively attractive valuations of listed companies should continue to support equity performance in Q2 2015 in most parts of the world.

However, the global macro outlook will be dominated by the diverging monetary policy stance between the US, the Eurozone and China, which could lead to bouts of volatility going forward.

Kalen Lim, Chief Executive Office, HSBC Global Asset Management (Singapore) Limited: “Volatility is likely to increase in 2015, as the Fed normalises its monetary policy. To capture opportunities in this uncertain environment, diversification as well as stock and credit selection will be critical to mitigating risk and benefiting from the potential upside across asset classes. Investor may capture opportunities in both equity and bond markets as mispricing of risk could uncover significant opportunities.”

US Fed policy will be the biggest single driver of the global macro outlook this year. The Fed is likely to remain dovish in terms of the pace of rate hikes, and HSBC expects that the first rate hike is likely to happen in 2015. Meanwhile in the Eurozone, the EUR1.1 trillion bond purchasing programme launched in March will likely help prevent deflation and boost economic activity in the region. However, uncertainty over the Greek financial situation can still pose a risk in the near term.

Although GDP growth is expected to stay close to 7% this year, the overall economic momentum in China remains challenging. Whilst still implementing its structural reforms, the government remained flexible and decided to loosen its monetary policy last summer in the wake of falling property prices and slower growth in non-bank credit. HSBC anticipates further easing of both fiscal and monetary measures as China strives to support growth.

Asia is a big beneficiary of declining oil prices as most countries in the region are net oil importers (except Malaysia). Potentially, these countries are likely to get a boost of 0.3 to 1.35 percentage points in GDP growth from a 30% drop in oil prices, if lower oil prices continue. In particular, China and India are likely to benefit the most due to their higher share of oil consumptions as a percentage of GDP.

Oil prices should remain low for some time as oil inventories are at historic high and reducing these inventories will take time given the expected growth in demand.

HSBC continues to prefer equities to government bonds at a global level, including Asia. Equities will continue to be supported by ample liquidity following the extensive QE programmes by the central banks in Japan and the Eurozone. Corporates in the region have potentials to deliver improved earnings growth on expectation for stronger economic growth in the year ahead. Besides, valuations are still relatively low compared to historic levels although they have risen over the past months.

Singapore's Equities Market

Valuation metrics are not particularly attractive versus most other Asian markets. The macroeconomic backdrop remains challenging, and Singapore is vulnerable to US interest rate increases, although Singapore market reflects more the state of global economy than its own domestic economy.

From a long term perspective, sound fundamentals in the region, stable inflation and credit quality continue to support Asian bonds. However, despite long term return potential, their sensitivity to US monetary conditions could be a caveat in the near term.

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Notes to Editors

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