

Investment Weekly

This week in detail

US nonfarm payrolls bounced back in October after hurricane weakness, while wage growth rose above 3%

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The week ahead

In the coming week, investor focus will turn to the US midterm elections as well as the Federal Open Market Committee decision

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Market moves

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Equities

Global stock markets advanced on upbeat Q3 corporate earnings and receding trade concerns

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Bonds

Government bonds were hit by a rebound in global risk appetite; however, Italian bonds rose

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Currencies

The British pound gained against the US dollar amid optimism in Brexit negotiations and some hawkish comments from the Bank of England

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Commodities

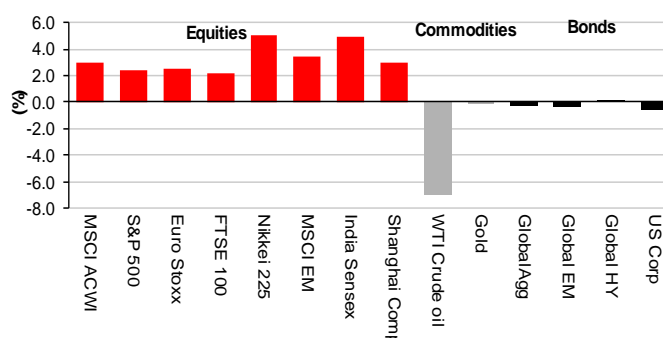
Crude oil prices fell sharply this week amid easing concerns over supply shortfalls; gold prices ended little changed

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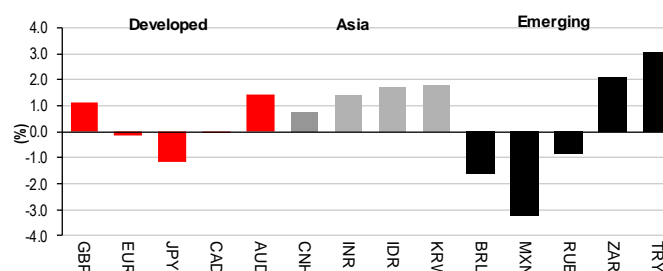
Market data

Market trends

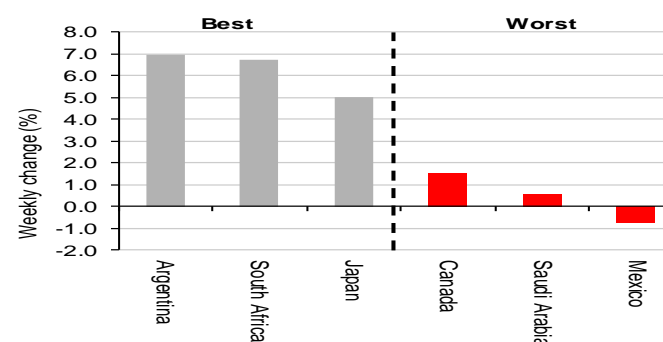
Movers and shakers



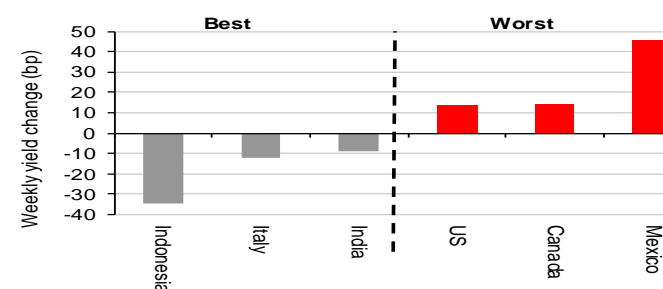
Currencies (versus USD)



Equities



Bonds (10-year yields)



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Sources: Bloomberg and HSBC Global Asset Management. Data as at close of business 02 November 2018. All the above charts relate to 26/10/2018 – 02/11/2018. **Past performance is not an indication of future returns.**

This week in detail

Macro data and key events

Date	Country	Indicator	Data as of	Survey	Actual	Prior
Monday 29 October	US	PCE Core (yoy)	Sep	2.0%	2.0%	2.0%
Tuesday 30 October	Japan	Jobless Rate	Sep	2.4%	2.3%	2.4%
	Eurozone	GDP (seasonally adjusted, qoq)	Q3	0.4%	0.2%	0.4%
	Mexico	GDP (seasonally adjusted, qoq)	Q3 P	0.5%	0.9%	-0.2%
	Japan	Industrial Production (mom)	Sep P	-0.3%	-1.1%	0.2%
Wednesday 31 October	Japan	Bank of Japan Interest Rate Decision	Oct	-0.10%	-0.10%	-0.10%
	Brazil	COPOM Interest Rate Decision	Oct	6.50%	6.50%	6.50%
	China	Official Manufacturing PMI	Oct	50.6	50.2	50.8
	Eurozone	CPI Estimate (yoy)	Oct	2.2%	2.2%	2.1%
	Eurozone	Unemployment Rate	Sep	8.1%	8.1%	8.1%
Thursday 01 November	UK	Bank of England Interest Rate Decision	Nov	0.75%	0.75%	0.75%
	US	ISM Manufacturing Index	Oct	59.0	57.7	59.8
Friday 02 November	US	Change in Nonfarm Payrolls (000s)	Oct	200	250	118

P – Preliminary, Q – Quarter

US nonfarm payrolls in October beat expectations; wage growth accelerated to 3.1% yoy

In the **US**, **nonfarm payrolls** grew by 250,000 in October, higher than an expected 200,000 increase. The upside surprise could partially reflect payback from hurricane-affected September figures. As expected, annual average hourly earnings growth rose 3.1% yoy – a nine-year high – while the unemployment rate held steady at 3.7%. Average monthly job gains in 2018 now stand at 213,000, well above 2017's 182,000. The **ISM Manufacturing Index** slipped 2.1 points (pts) to 57.7, missing an expected reading of 59.0. The moderation came as new orders (57.4), production (59.9) and employment (56.8) all eased off elevated levels. Measures above 50 indicate expansion. The **PCE core deflator** was unchanged at 2.0% yoy in September, in line with expectations

Eurozone GDP disappointed expectations

In Europe, **eurozone Q3 GDP** came in at 0.2% qoq, below expectations of 0.4% qoq (matching H1's rate of expansion). Although there is no breakdown of components in this release, activity may have been hit by higher oil prices, lingering global trade tensions and disruptions in the German auto industry. The flash estimate for **eurozone CPI inflation** in October rose to 2.2% yoy, in line with expectations and up from 2.1% yoy in September. Meanwhile, core inflation also edged up, by 0.2 percentage points to 1.1% yoy. The **Bank of England's** Monetary Policy Committee voted 9-0 to keep interest rates on hold at 0.75% in November, as expected. Forward guidance was little changed, with a "limited and gradual" tightening path still appropriate given expectations that wage growth could accelerate and excess demand emerge slightly earlier than previously expected (by the end of 2019).

The Bank of England, the Central Bank of Brazil and the Bank of Japan kept monetary policy unchanged this week

In Asia, the **Bank of Japan (BoJ)** kept its policy broadly unchanged, keeping the yield curve flat with the Japanese government bond buying target at an annual pace of "about JPY80 trillion." The BoJ reiterated its intention to maintain its extremely accommodative policy for an extended period of time, also stating explicitly that monetary policy should be conducted in a "flexible manner." The BoJ downgraded its inflation forecast for the next three fiscal years by 0.1 to 0.2 percentage points (from +1.1% to +0.9% for the current fiscal year and from 1.5% to 1.4% for FY2020, excluding the effect of the consumption tax hike of October 2019).

In terms of data releases, **Japan's industrial production** in September was much weaker than expected, down 1.1% mom (consensus at -0.3%) from 0.2% mom in August. Most of the negative surprise came from bad weather and natural disasters. **China's official manufacturing PMI** for October dropped to its lowest level in more than two years (50.2) from 50.8 in September, with weak foreign trade indicators. The new export order sub-index fell from 48.0 to 46.9, and the imports sub-index moderated 0.9 points to 47.6.

In Latin America, the **Central Bank of Brazil** unanimously voted to keep its SELIC rate unchanged at 6.50%. A 10% appreciation in the Brazilian real since the prior meeting eased pricing pressure worries, allowing policymakers to focus on supporting a weaker than anticipated economic recovery. **Mexico's Q3 GDP** grew 0.9% qoq, higher than an anticipated 0.5% qoq rise. This kept the annual rate of growth steady at 2.6% yoy and followed a modest 0.2% qoq contraction in the prior quarter.

The week ahead

Macro data and key events

Date	Country	Indicator	Data as of	Survey	Prior
Monday 05 November	Turkey	CPI (yoy)	Oct	24.8%	24.5%
	US	ISM Non-Manufacturing	Oct	59.4	61.6
Tuesday 06 November	Australia	Reserve Bank of Australia Interest Rate Decision	Nov	1.50%	1.50%
	Germany	Factory Orders (working day adjusted, yoy)	Sep	-2.7%	-2.1%
	Eurozone	Markit Composite PMI	Oct F	52.7	52.7 P
	US	Midterm Elections			
Wednesday 07 November	Germany	Industrial Production (seasonally adjusted, mom)	Sep	0.0%	-0.3%
	Brazil	IBGE Inflation IPCA (yoy)	Oct	4.7%	4.5%
Thursday 08 November	China	Trade Balance (USD bn)	Oct	-	31.7
	Mexico	CPI (yoy)	Oct	4.9%	5.0%
	US	FOMC Interest Rate Decision	Nov	2.25%	2.25%
Friday 09 November	China	CPI (yoy)	Oct	-	2.5%
	UK	GDP (qoq)	Q3	0.6%	0.4%
	US	University of Michigan Index of Consumer Sentiment	Nov P	97.9	98.6

P – Preliminary, Q – Quarter, F – Final

In the coming week, the US midterm elections will determine whether Republicans keep control of Congress and set the stage for President Trump's 2020 re-election bid

US

The **US midterm elections** on 6 November will determine whether Republicans keep control of Congress and set the stage for President Trump's 2020 re-election bid. Thirty-five out of 100 Senate seats and all 435 House of Representative (HoR) seats are up for grabs. Currently, the Republicans hold both Houses of Congress. Recent forecasts suggest the most likely scenario resulting from the elections could be a split Congress with the Democrats controlling the HoR and Republicans keeping control of the Senate.

Meanwhile, the **FOMC** is expected to keep the fed funds target range unchanged at 2.00%-2.25%. Policymakers could take a breather in their gradual tightening cycle after a rate hike in the September meeting. Core inflation is projected to trend near 2% yoy for the next two years while Vice Chairman Richard Clarida recently said he viewed inflation risks as symmetric at present. No press conference is scheduled after this decision.

The **ISM Non-Manufacturing Index** is anticipated to dip to 59.4 for October, easing from 61.6 in September. The strong jump in the ISM Non-Manufacturing Index in September was unexpected and was coupled with a broad-based improvement in the sub-indices.

Finally, the **University of Michigan Index of Consumer Sentiment** is forecast to dip 0.7 pts to 97.9 in November. October's final reading reported little impact from recent stock market volatility, emphasising the importance of expected job growth for the resilience.

Europe

German industrial production is anticipated to be little changed over September, with factory output still weighed on by global trade tensions and a slowing world economy. This would leave annual growth at 0.7% yoy. However, some upside potential is possible following the unwinding of recent disruptions in the auto sector.

The first estimate of **Q3 UK GDP** growth is expected to show output expanding by 0.6% qoq, boosted by robust activity in the services sector amid a hot summer, and a possible rebound in net exports. Overall, this would represent the strongest quarter of growth in the UK economy since Q4 2016.

Emerging markets

In **Brazil**, the **IBGE inflation** (IPCA measure) is expected to pick up to 4.7% yoy in October. This is near policymakers' current 4.5% yoy target. A preliminary release (IPCA-15) showed a monthly acceleration to mid-October, owing to fuel and food cost increases.

Mexico's CPI inflation is pencilled in to cool 0.1 percentage points to 4.9% yoy in October. Inflation has been converging to the central bank's 2%-4% yoy target range at a slower than expected pace this year, due to fuel increases.

Market moves

Equities

Global stock markets advanced on upbeat Q3 corporate earnings and receding trade concerns

Bonds

Government bonds were hit by a rebound in global risk appetite; However Italian bonds rose

Currencies

The British pound gained against the US dollar amid optimism in Brexit negotiations and some hawkish comments from the BoE

Commodities

Crude oil prices fell sharply this week amid easing concerns over supply shortfalls; gold prices ended little changed

Equities

US stocks rebounded this week, with the S&P 500 Index finishing 2.4% higher as investors focused on positive corporate earnings releases and signs of easing trade tensions between the US and China ahead of the G20 meeting next month. Risk sentiment was also supported by stronger US consumer confidence data, which helped offset the weakness in the ISM manufacturing release for October. At the sector level, materials outperformed despite lower crude oil prices. In Canada, the S&P/TSX Composite Index also advanced (+1.6%) amid upbeat GDP data for August.

Similarly, **European stocks** gained with the EURO STOXX 50 Index closing up 2.5%, supported by some upbeat corporate earnings and a recovery in investor risk appetite. Germany's DAX climbed 2.8% higher amid news that China is planning to cut the tax levied on car purchases by half. The UK's FTSE 100 Index added 2.2% despite a stronger sterling following some hawkish commentary from the BoE. Italy's FTSE MIB outperformed (+3.8%) as a major credit rating agency kept the sovereign credit rating unchanged. All other major European bourses also rose.

In **Asia, stock markets** rebounded after their sharp decline of the previous weeks, amid easing concern about the outlook for corporate earnings and the global economy, while worries over US-China trade tensions and geopolitical risks receded on news of trade talks between the presidents of the US and China, as well as US waivers on Iranian oil exports to certain countries. Japan's Nikkei 225 Index rose 5.0%, Hong Kong's Hang Seng Index gained 7.2% and India's SENSEX 30 Index finished up 5.0%. Chinese onshore equities underperformed, with the Shanghai Stock Exchange Composite Index adding 3.0% over the week.

Bonds

US 10-year Treasuries declined this week (yields rose), weighed on by a rebound in risk appetite and robust economic data releases. Overall, 10-year yields rose 14 bps to 3.21% and two-year yields closed 10 bps higher at 2.90%. Meanwhile, Canadian 10-year yields closed up 14 bps to 2.53%.

The rebound in risk appetite also saw core **European government bond** yields increase, with benchmark German 10-year bund yields gaining 8 bps to 0.43%. However, Italian 10-year government bonds outperformed after a credit rating agency left Italy's sovereign rating unchanged last Friday.

Currencies

The **British pound** rose (+1.1%) against the US dollar this week, with much of the gains occurring on Thursday, following some hawkishness from the BoE and reports that the UK was nearing a deal on financial services with the European Union. The **euro** fell slightly (-0.1%) against the dollar.

Emerging market Asian currencies appreciated against the US dollar over the week, led by the Korean won and Indonesian rupiah, amid improved risk appetite and signs of progress in the negotiations over the US-China trade dispute. The Chinese yuan appreciated 0.8%. The Japanese yen bucked the regional trend, depreciating versus the US dollar, as demand for perceived "safe-haven" assets softened and the BoJ cut its inflation forecasts for the next three years, suggesting Japan's monetary policy will remain accommodative for an extended period of time.

Commodities

Crude oil prices fell sharply this week, with the bulk of declines occurring on Thursday as OPEC and Russian oil production rose in October while concerns over US sanctions on Iran eased after India and South Korea agreed with the US on the outline of waivers. WTI fell 7.0% to USD62.8 a barrel.

Gold prices were little changed this week (+0.0% to USD1,233 per troy ounce) as a rebound in risk appetite, weighing on perceived "safe-haven" demand, was offset by a weaker US dollar towards the end of the week.

Market data

Equity Indices	Close	1-week Change (%)	1-month Change (%)	3-month Change (%)	1-year Change (%)	YTD Change (%)	52-week High	52-week Low	Fwd P/E (X)
World									
MSCI AC World Index (USD)	489	3.0	-6.5	-5.4	-1.8	-4.6	551	470	14.8
North America									
US Dow Jones Industrial Average	25,271	2.4	-5.6	-0.2	7.5	2.2	26,952	23,243	15.8
US S&P 500 Index	2,723	2.4	-6.9	-3.7	5.6	1.8	2,941	2,533	16.7
US NASDAQ Composite Index	7,357	2.6	-8.0	-5.7	9.6	6.6	8,133	6,631	21.4
Canada S&P/TSX Composite Index	15,119	1.6	-5.6	-7.9	-5.6	-6.7	16,586	14,640	14.4
Europe									
MSCI AC Europe (USD)	432	3.2	-6.0	-7.4	-10.2	-11.5	524	414	13.2
Euro STOXX 50 Index	3,214	2.5	-5.2	-7.3	-12.9	-8.3	3,699	3,091	13.2
UK FTSE 100 Index	7,094	2.2	-5.1	-6.4	-6.1	-7.7	7,904	6,852	12.6
Germany DAX Index*	11,519	2.8	-6.3	-8.2	-14.3	-10.8	13,597	11,051	12.3
France CAC-40 Index	5,102	2.7	-6.7	-6.6	-7.4	-4.0	5,657	4,897	13.6
Spain IBEX 35 Index	8,993	3.0	-3.4	-7.3	-14.0	-10.5	10,643	8,628	11.9
Italy FTSE MIB Index	19,390	3.8	-5.7	-9.5	-15.9	-11.3	24,544	18,411	10.6
Asia Pacific									
MSCI AC Asia Pacific ex Japan (USD)	479	3.6	-7.2	-10.1	-13.9	-16.0	617	459	12.2
Japan Nikkei-225 Stock Average	22,244	5.0	-8.4	-1.2	-1.3	-2.3	24,448	20,347	15.9
Australian Stock Exchange 200	5,849	3.2	-4.5	-6.3	-1.4	-3.6	6,374	5,625	14.9
Hong Kong Hang Seng Index	26,486	7.2	-2.4	-4.4	-7.1	-11.5	33,484	24,541	11.1
Shanghai Stock Exchange Composite Index	2,676	3.0	-5.1	-3.3	-20.9	-19.1	3,587	2,449	11.0
Hang Seng China Enterprises Index	10,688	6.3	-0.6	-0.4	-7.9	-8.7	13,963	9,903	8.3
Taiwan TAIEX Index	9,907	4.4	-9.3	-9.4	-8.2	-6.9	11,270	9,401	12.9
Korea KOSPI Index	2,096	3.4	-9.2	-7.7	-17.7	-15.1	2,607	1,986	8.7
India SENSEX 30 Index	35,012	5.0	-4.1	-5.8	4.3	2.8	38,990	32,484	19.4
Indonesia Jakarta Stock Price Index	5,906	2.1	0.5	-1.8	-2.1	-7.1	6,693	5,558	15.5
Malaysia Kuala Lumpur Composite Index	1,714	1.8	-4.7	-3.6	-1.6	-4.6	1,896	1,658	16.6
Philippines Stock Exchange PSE Index	7,140	1.1	0.1	-8.0	-16.2	-16.6	9,078	6,791	16.7
Singapore FTSE Straits Times Index	3,116	4.9	-3.9	-5.2	-7.8	-8.4	3,642	2,956	12.6
Thailand SET Index	1,682	3.2	-3.8	-1.5	-1.2	-4.1	1,853	1,585	15.6
Latam									
Argentina Merval Index	31,419	7.0	-4.0	8.8	12.4	4.5	35,462	24,618	9.6
Brazil Bovespa Index*	88,419	3.1	8.3	11.0	19.8	15.7	89,017	69,069	13.4
Chile IPSA Index	5,104	-0.4	-4.1	-5.2	-7.4	-8.3	5,895	4,847	15.8
Colombia COLCAP Index	1,391	-0.4	-8.0	-9.0	-2.4	-8.1	1,598	1,379	12.7
Mexico S&P/BMV IPC Index	45,447	-0.8	-8.0	-7.4	-6.0	-7.9	51,121	43,407	15.5
EEMEA									
Russia MOEX Index	2,378	3.7	-2.9	3.6	14.7	12.7	2,502	2,065	5.4
South Africa JSE Index	54,271	6.8	-2.2	-3.9	-8.5	-8.8	61,777	50,033	12.8
Turkey ISE 100 Index*	94,123	4.0	-4.1	-0.4	-16.7	-18.4	121,532	84,655	7.3

*Indices expressed as total returns. All others are price returns.

Equity Indices - Total Return	1-week Change (%)	1-month Change (%)	3-month Change (%)	YTD Change (%)	1-year Change (%)	3-year Change (%)	5-year Change (%)
Global equities	3.0	-6.4	-5.0	-3.0	0.1	25.7	36.6
US equities	3.2	-6.2	-2.9	3.6	7.7	35.6	66.3
Europe equities	3.3	-5.9	-7.0	-9.1	-7.6	8.8	6.9
Asia Pacific ex Japan equities	3.6	-7.2	-9.5	-14.0	-11.6	23.5	14.8
Japan equities	2.3	-8.4	-5.4	-6.5	-4.6	20.3	29.6
Latam equities	1.2	3.4	1.7	-1.7	0.0	46.2	-9.0
Emerging Markets equities	3.4	-5.9	-8.5	-14.3	-11.7	22.5	6.3

All total returns quoted in US-dollar terms and subject to one-day lag.

Data sourced from MSCI AC World Total Return Index, MSCI USA Total Return Index, MSCI AC Europe Total Return Index, MSCI AC Asia Pacific ex Japan Total Return Index, MSCI Japan Total Return Index, MSCI Emerging Markets Latin America Total Return Index, and MSCI Emerging Markets Total Return Index

Total return includes income from dividends and interest as well as appreciation or depreciation in the price of an asset over the given period.

	Close	1-week Change (%)	1-month Change (%)	3-month Change (%)	1-year Change (%)	YTD Change (%)
Bond indices - Total Return						
BarCap GlobalAgg (Hedged in USD)	514	-0.2	-0.2	0.0	0.1	-0.2
JPM EMBI Global	764	-0.3	-1.8	-1.7	-5.4	-5.4
BarCap US Corporate Index (USD)	2,794	-0.5	-1.5	-1.1	-3.1	-3.7
BarCap Euro Corporate Index (Eur)	245	-0.2	-0.4	-0.5	-1.4	-0.9
BarCap Global High Yield (Hedged in USD)	465	0.1	-1.3	-0.5	-0.9	-0.9
Markit iBoxx Asia ex-Japan Bond Index (USD)	191	-0.4	-1.0	-0.4	-2.5	-2.5
Markit iBoxx Asia ex-Japan High-Yield Bond Index (USD)	241	-1.1	-2.6	-1.5	-4.4	-4.6

Total return includes income from dividends and interest as well as appreciation or depreciation in the price of an asset over the given period.

Currencies (vs USD)	Latest	1-week Ago	1-month Ago	3-months Ago	1-year Ago	Year End 2017	52-week High	52-week Low	1-week Change (%)
Developed markets									
EUR/USD	1.14	1.14	1.15	1.16	1.17	1.20	1.26	1.13	-0.1
GBP/USD	1.30	1.28	1.30	1.30	1.31	1.35	1.44	1.27	1.1
CHF/USD	1.00	1.00	1.02	1.00	1.00	1.03	1.09	0.99	-0.6
CAD	1.31	1.31	1.28	1.30	1.28	1.26	1.34	1.23	0.0
JPY	113.20	111.91	113.65	111.66	114.08	112.69	114.73	104.56	-1.2
AUD	1.39	1.41	1.39	1.36	1.30	1.28	1.42	1.23	1.5
NZD	1.50	1.53	1.52	1.48	1.45	1.41	1.56	1.34	1.9
Asia									
HKD	7.82	7.84	7.83	7.85	7.80	7.81	7.85	7.79	0.3
CNY	6.89	6.94	6.87	6.84	6.61	6.51	6.98	6.24	0.8
INR	72.44	73.47	72.91	68.71	64.61	63.87	74.48	63.25	1.4
MYR	4.16	4.18	4.14	4.08	4.23	4.05	4.24	3.85	0.4
KRW	1,122	1,142	1,119	1,126	1,114	1,067	1,145	1,054	1.7
TWD	30.66	30.99	30.65	30.68	30.20	29.73	31.17	28.96	1.1
Latam									
BRL	3.70	3.64	3.94	3.75	3.27	3.31	4.21	3.12	-1.6
COP	3,184	3,180	3,017	2,906	3,029	2,986	3,228	2,685	-0.1
MXN	20.01	19.36	18.79	18.64	18.98	19.66	20.96	17.94	-3.4
EEMEA									
RUB	66.18	65.60	65.51	63.36	58.19	57.69	70.84	55.56	-0.9
ZAR	14.30	14.60	14.36	13.45	13.97	12.38	15.70	11.51	2.1
TRY	5.43	5.59	5.99	5.07	3.80	3.80	7.24	3.72	2.9

Bonds	Close	1-week Ago	1-month Ago	3-months Ago	1-year Ago	Year End 2017	1-week Basis Point Change *
US Treasury yields (%)							
3-Month	2.31	2.32	2.21	2.00	1.16	1.38	-1
2-Year	2.90	2.81	2.81	2.66	1.61	1.88	10
5-Year	3.03	2.91	2.95	2.85	2.00	2.21	13
10-Year	3.21	3.08	3.06	2.99	2.35	2.41	14
30-Year	3.45	3.31	3.22	3.12	2.83	2.74	14
10-year bond yields (%)							
Japan	0.12	0.11	0.13	0.12	0.05	0.04	2
UK	1.49	1.38	1.53	1.38	1.26	1.19	11
Germany	0.43	0.35	0.42	0.46	0.37	0.42	8
France	0.78	0.74	0.78	0.78	0.76	0.78	5
Italy	3.32	3.44	3.45	2.91	1.79	2.01	-12
Spain	1.57	1.57	1.54	1.45	1.48	1.56	0
China	3.55	3.55	3.63	3.48	3.88	3.90	0
Australia	2.69	2.60	2.67	2.73	2.65	2.63	10
Canada	2.53	2.39	2.46	2.37	1.96	2.05	14

*Numbers may not add up due to rounding

Commodities	Latest	1-week Change (%)	1-month Change (%)	3-month Change (%)	1-year Change (%)	YTD Change (%)	52-week High	52-week Low
Gold	1,233	0.0	2.5	2.1	-3.4	-5.4	1,366	1,160
Brent Oil	72.6	-6.6	-14.0	-1.5	25.8	14.6	86	59
WTI Crude Oil	62.8	-7.0	-16.3	-5.9	18.6	8.2	77	53
R/J CRB Futures Index	192	-1.6	-3.8	-0.2	2.2	-0.8	207	183
LME Copper	6,090	-1.1	-3.0	-0.8	-12.1	-16.0	7,348	5,773

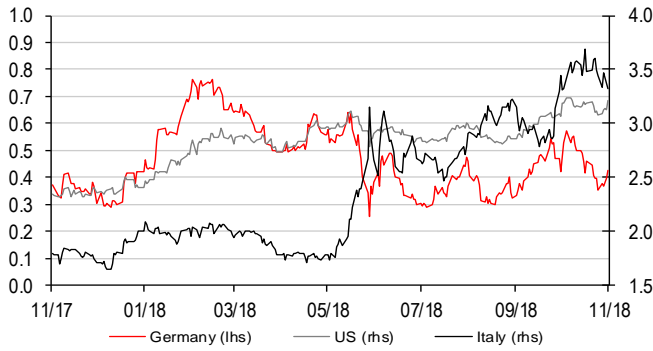
Sources: Bloomberg and HSBC Global Asset Management. Data as at close of business 02 November 2018.

Past performance is not an indication of future returns.

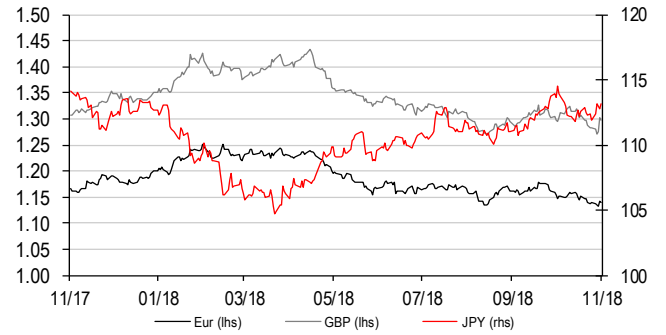
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Market Trends

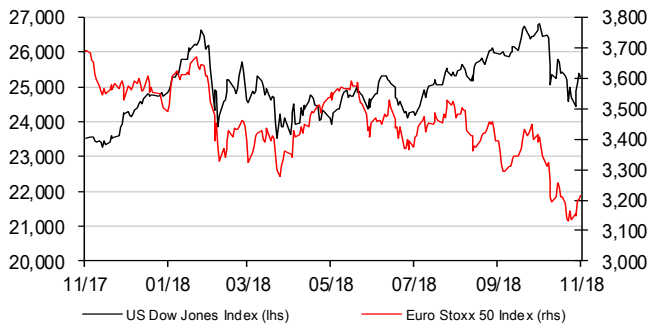
Government bond yields (%)



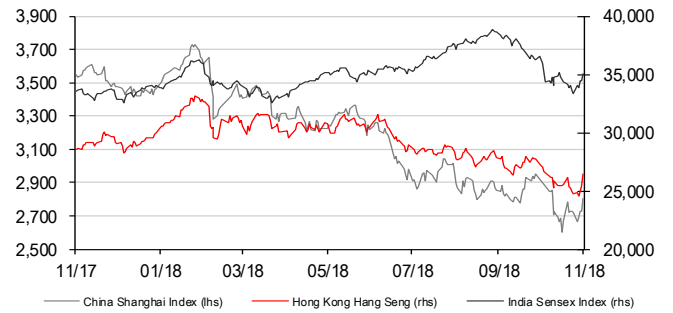
Major currencies (versus USD)



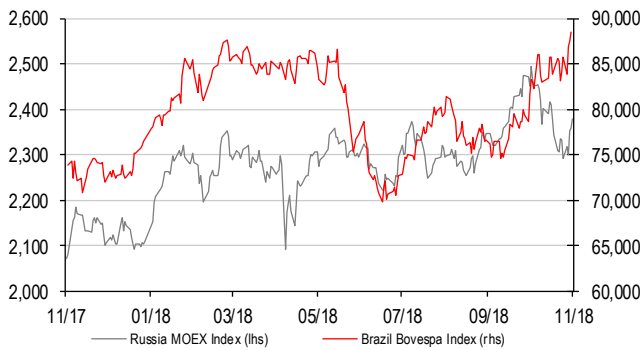
Global equities



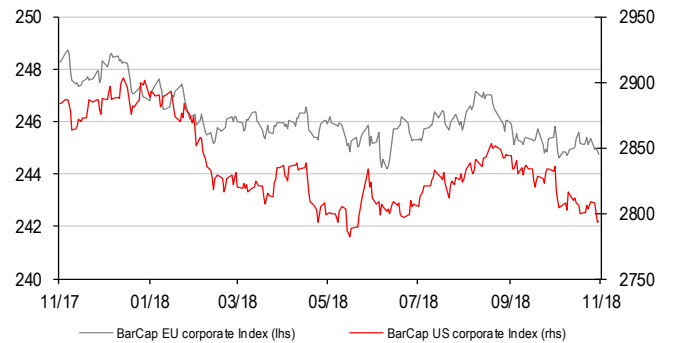
Emerging Asian equities



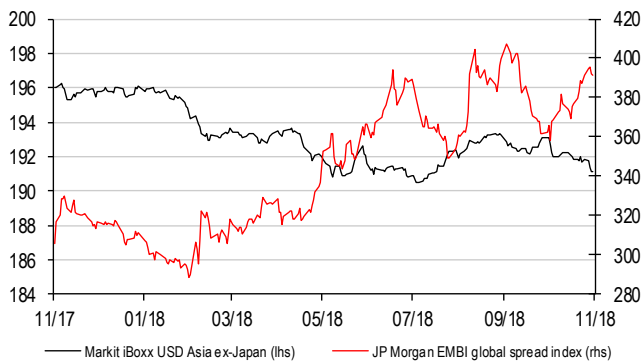
Other emerging equities



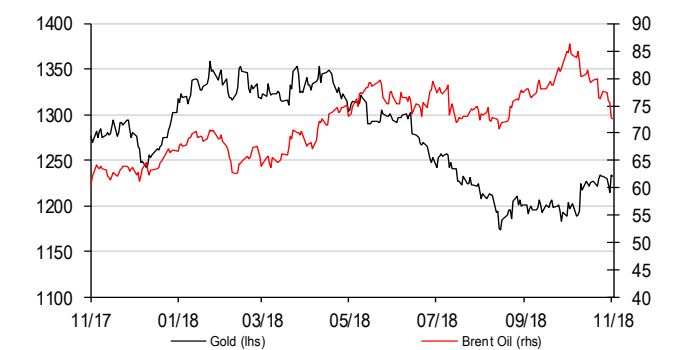
Global credit indices



Emerging markets spreads (USD indices)



Commodities (USD)



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