Investment Weekly

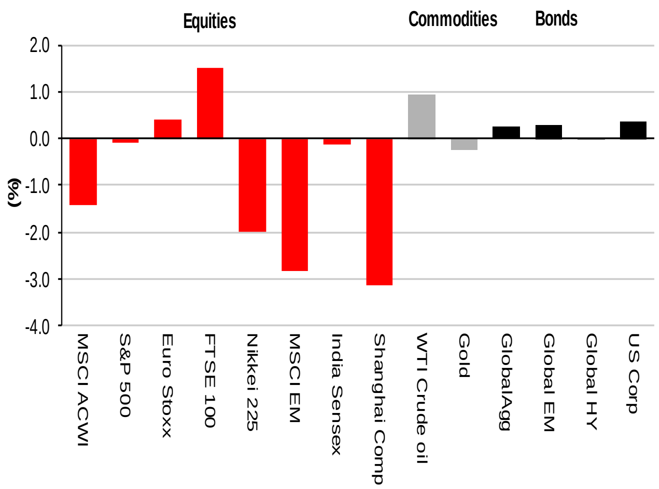
29 March 2018

For Professional Client and Institutional Investor Use Only

- Global equities mixed this week on easing concerns over global trade. US Treasury Secretary Steven Mnuchin said that the US and China have held “very productive conversations.” Meanwhile, technology shares sold off
- The final release of US Q4 GDP came in at 2.9% qoq annualised, stronger than both expectations and the previous estimate. Growth in personal consumption, the key driver of economic activity, was also revised higher
- The US March nonfarm payrolls release is the key focus for next week. Details on wage growth and the labour force participation rate could determine the inflation outlook and, accordingly, the trajectory for policy rates

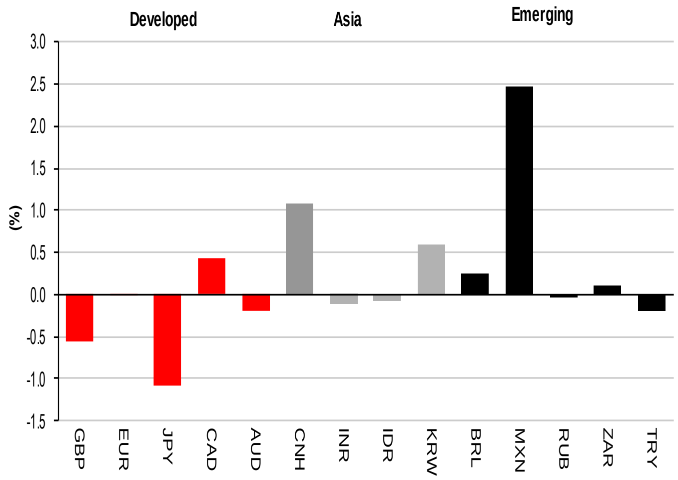
Movers and shakers

Global equities mixed as concerns over global trade eased

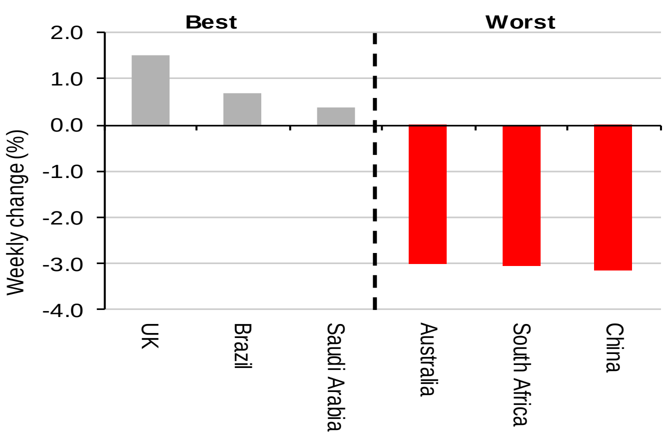


Currencies (versus US dollar)

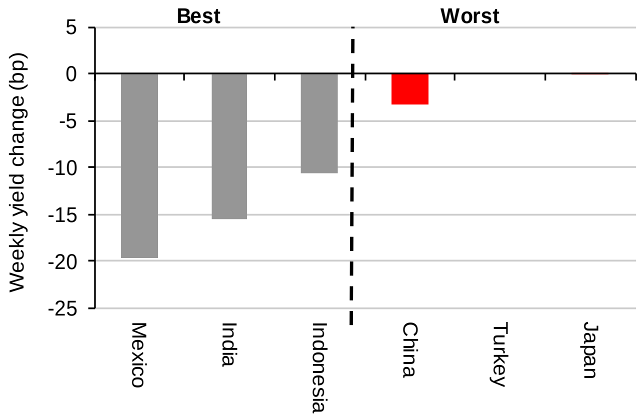
The US dollar rose against most majors on solid macro data



Equities



Bonds (10-year)



Sources: Bloomberg and HSBC Global Asset Management. Data as at close of business 29 March 2018.
All the above charts relate to 23/03/2018 – 29/03/2018.

Past performance is not an indication of future returns.

HSBC Global Asset Management

Macro Data and Key Events

Past Week (27-30 March 2018)

Date	Country	Indicator	Data as of	Survey	Actual	Prior
Tuesday 27 March	US	S&P CoreLogic Case-Shiller 20-City Composite Home Price NSA Index (yoy)	Jan	6.2%	6.4%	6.3%
	US	Conference Board Consumer Confidence Index	Mar	131.0	127.7	130.0
Wednesday 28 March	South Africa	Reserve Bank Interest Rate Decision	Mar	6.50%	6.50%	6.75%
	US	GDP Annualised (qoq)	Q4 F	2.7%	2.9%	2.5% P
	US	Pending Home Sales (mom)	Feb	2.0%	3.1%	-5.0%
Thursday 29 March	UK	GDP (qoq)	Q4 F	0.4%	0.4%	0.4% P
	US	PCE Core (yoy)	Feb	1.6%	1.6%	1.5%
	US	Personal Spending (mom)	Feb	0.2%	0.2%	0.2%
	US	University of Michigan Index of Consumer Sentiment	Mar F	102.0	101.4	102.0 P
Friday 30 March	Japan	Jobless Rate	Feb	2.6%	-	2.4%
	Japan	Industrial Production (mom)	Feb P	5.0%	-	-6.8%

P – Preliminary, Q – Quarter, F – Final

- In the **US**, the final release of **Q4 GDP** came in at 2.9% qoq annualised (+2.7% expected), 0.4 ppts higher than the previous estimate. Gross non-residential structure investment saw the largest upward adjustment, and the decline in non-farm inventory was pared back. Growth in personal consumption, the key driver of economic activity, was also revised 0.2 ppts higher to 4.0% qoq annualised.
- Moving to the housing market, **pending home sales** grew 3.1% mom in February, above the 2.0% projected increase, but January's decline was revised downwards to -5.0% mom from -4.7%. The underlying detail was also encouraging, with contract signings advancing in all four regions. **The S&P CoreLogic Case-Shiller 20-City Composite Home Price NSA Index** revealed that home prices grew at 6.4% yoy in January, higher than the consensus forecast of 6.2%. Housing price appreciation recently sped up above the 4%-6% yoy range set since mid-2014, amid continued lean inventory management and steady demand. January's existing home sales report showed the supply of existing residences on the market dipping to the second lowest on record (1.52 million). However, the general uptrend is well supported by a solid job market and relatively affordable – albeit rising – mortgage costs.
- **Personal spending** grew by 0.2% mom in February, in line with expectations. However, adjusted for inflation, expenditures were unchanged and missed a forecasted 0.1% mom advance. January's 0.1% mom decline in real spending was also pared further to 0.2%. Household spending has softened so far this year after a set of strong releases at the end of 2017. Meanwhile, the **PCE core deflator** – the US Federal Reserve's (Fed) favoured inflation measure – picked up 0.1 ppt to 1.6% yoy, as anticipated.
- **The US Conference Board Consumer Confidence Index** declined to 127.7 in March, below the expected 131.0. Despite the slip, consumers remain upbeat about overall conditions, with the headline survey trending near peak levels not seen since the early 2000s. In the details, respondents' assessment of the current situation edged 1.3 points lower to 159.9 and the outlook component decreased 3.0 points to 106.2.
- The **South African Central Bank cut its policy rate by 25 bps to 6.50%** at its March Monetary Policy Committee (MPC) meeting, in line with consensus expectations. It was a close decision, with four of the seven MPC members voting for a rate cut, and the remaining three preferring no change. In making the decision, the MPC emphasised the improvements in confidence and the growth outlook, softening inflation, signs that upside inflation risks have dissipated, and a decline in inflation expectations to a multi-year low at the start of 2018. Similar to the communication at the previous rate cut in July 2017, Governor Lesetja Kganyago argued that this was not the beginning of a rate-cutting cycle, with future policy decisions data dependent and sensitive to the assessment of the balance of risks to the outlook.

Coming Week (31 March – 06 April 2018)

Date	Country	Indicator	Data as of	Survey	Prior
Saturday 31 March	China	Official Manufacturing PMI	Mar	50.6	50.3
Monday 02 April	Japan	Tankan Large Manufacturing Index	Q1	25	26
	US	ISM Manufacturing Index	Mar	60.0	60.8
Tuesday 03 April	Australia	Reserve Bank of Australia Interest Rate Decision	Apr	1.50%	1.50%
	Turkey	CPI (yoy)	Mar	10.0%	10.3%
Wednesday 04 April	Eurozone	CPI Estimate (yoy)	Mar	1.4%	1.2%
	Eurozone	Unemployment Rate	Feb	8.5%	8.6%
	US	Durable Goods Orders (mom)	Feb F		3.1% P
	US	ISM Non-Manufacturing Index	Mar	59.0	59.5
Thursday 05 April	Germany	Factory Orders (working day adjusted, yoy)	Feb	6.5%	8.2%
	Eurozone	Markit Composite PMI	Mar F	55.3	55.3 P
	India	RBI Interest Rate Decision (repurchase rate)	Apr		6.00%
Friday 06 April	Germany	Industrial Production (seasonally adjusted, mom)	Feb	0.3%	-0.1%
	US	Change in Nonfarm Payrolls (000s)	Mar	185	313

P – Preliminary, Q – Quarter, F – Final

Sources: Bloomberg and HSBC Global Asset Management. Data as at close of business 29 March 2018.

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US

- March **nonfarm payrolls** are expected to grow by 185,000, reverting to trend after February's robust gain of 313,000 jobs. Meanwhile, wage growth could inch up 0.1 ppt to 0.2% mom (the five-year monthly average) after a tepid reading in the prior month. This would push the annual rate to 2.7% yoy in March, from 2.6% in February. Amid continuing tight labour conditions, the unemployment rate is forecasted to dip 0.1 ppt to 4.0%.
- The **ISM Manufacturing Index** is expected to moderate to 60.0 in March, after advancing to a cycle peak (60.8) in the prior month in the wake of recent tax reforms. In the details, another strong set of new order and export prints may signal near-term momentum after February's healthy pickup in manufacturing data.
- Finally, the **ISM Non-Manufacturing Index** could stay at elevated levels but is anticipated to dip 0.5 points to 59.0 in March. New orders reached the highest level since August 2005 in February, but the headline number was weighed down by a 6.6 point slip in the employment index.

Europe

- Headline **eurozone CPI inflation** is likely to accelerate to 1.4% yoy in March from 1.2% in the prior month, probably driven by base effects in the food and drink category. Meanwhile, the core figure is anticipated to edge up to 1.1% yoy, remaining in the 0.7%-1.2% range it has occupied since early 2015.

Japan and emerging markets

- In 2017, business confidence improved in Japan, as exports and investment gradually picked up and equity markets rallied. However, this context has become less supportive at the beginning of 2018, with equities down by about 7% year to date and the Ministry of Finance's Business Sentiment Index softening in Q1 along with heightened trade tensions. The **Bank of Japan quarterly Business Conditions survey** (also known as **Tankan**) for Q1 is expected to reflect a stabilisation at cyclical highs and the survey's main component (the business conditions for large manufacturers) is expected to edge down from 26 in Q4 to 25.
- The **Reserve Bank of India (RBI)** will hold its monetary policy meeting on Thursday. The RBI is likely to keep policy on hold and interest rates unchanged (repo rate at +6.00%). The recent slowdown in inflation since December (from +5.2% yoy to +4.4%) could prompt the RBI to reassess its consumer price expectations after the upward revision of its forecasts at the previous policy meeting.

Market Moves

Global equities were mixed on easing trade concerns; technology shares sold off

- US equities rose sharply at the beginning of the week, on easing concerns over protectionist policy. However, bourses then pared gains on the back of the sell-off in technology stocks. Meanwhile, data releases continue to suggest robust economic activity, with the final release of Q4 GDP coming in at 2.9% qoqa, 40 bps higher than the previous estimate. Overall, the S&P 500 Index declined 0.1%, while the technology-heavy NASDAQ Composite Index fell 1.4%.
- European equities performed well this week, as global risk appetite was lifted by news that the US and China had "very productive conversations" on trade policy. The regional EURO STOXX 50 Index rose 0.4%, with consumer staples outperforming on the back of positive corporate news. At the country level, Germany's DAX was flat at 0.0%, Spain's IBEX rallied 1.2% and the UK's FTSE 100 Index closed up 1.5%.
- In Asia, most equity markets were little changed over the week. Japanese equities outperformed as the depreciation of the yen, on the back of reduced risk aversion, supported Japanese exporters' outlook. The Nikkei 225 Index ended the week 2.0% lower (after a decline of 4.9% the previous week). After their recent relative underperformance, Indian equities continued to show some resilience over the week, with the SENSEX 30 Index losing 0.1%. Hong Kong's Hang Seng ended the week down 3.1%.

Treasury and European government bond yields fell with solid macro data and improving risk appetite

- US 10-year Treasury yields rose and prices fell on Monday as investor risk appetite improved on the back of a much more diplomatic tone out of the White House last weekend, with the White House trade advisor, Peter Navarro, playing down the threat of a trade war. However, as the holiday-shortened trading week progressed, US 10-year Treasuries rallied and yields fell on heightened demand for perceived "safe-haven" assets. Overall, 10-year Treasury yields fell 9 bps to 2.74%.
- In Europe, government bond yields also ended the week lower following weak investor risk appetite. In particular, benchmark German 10-year Bund yields crept under 0.50% (on Tuesday) for the first time since January, but ended the week 3 bps down at 0.49%. Peripheral yields also fell, with Italian 10-year bond yields down 10 bps to 1.78%.

US dollar rose this week on solid macro data

- The euro climbed against the US dollar on Monday, after European Central Bank (ECB) Governing Council member Jens Weidmann commented that the ECB should begin normalisation without delay, and that market expectations for a rate hike around the summer next year is not "completely unrealistic." However, the euro still finished the week flat against the US dollar (0.0%) after a strong US Q4 GDP number propelled the greenback. Sterling also depreciated this week against the greenback (-0.6%), snapping a three-week winning streak.

Sources: Bloomberg and HSBC Global Asset Management. Data as at close of business 29 March 2018.

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- Most Asian currencies traded sideways against the US dollar over the week, as investors continued to assess the impact of possible trade tensions escalation after US authorities announced new tariffs on imports from China. The visit of North Korea's leader to China and the reiteration of his commitment to denuclearisation bolstered the Korean won (+0.6%), reducing demand for "safe-haven" assets like the Japanese yen, which depreciated by 1.1%. Elsewhere, the Malaysian ringgit appreciated 1.1%.

Oil prices rose amid a stronger US dollar; gold prices edged lower

- Crude oil prices rose this week amid a stronger US dollar and U.S. Energy Information Administration data showing a larger than expected increase in crude inventories last week. Some support also came from signs that OPEC and other producers will continue production curbs for the rest of the year and potentially into 2019. Overall, WTI crude rose 1.0% to close at USD64.9 a barrel.
- Meanwhile, **gold prices** edged lower (-0.3% to USD1,326 per troy ounce), weighed on by a stronger dollar and easing concerns around global trade, reducing demand for perceived "safe-haven" assets.

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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)	501	-1.4	-3.2	-2.3	11.3	-2.3	551	444	15.1
North America									
US Dow Jones Industrial Average	24,103	0.6	-3.7	-2.5	16.7	-2.5	26,617	20,380	16.3
US S&P 500 Index	2,641	-0.1	-2.7	-1.2	11.8	-1.2	2,873	2,329	16.9
US NASDAQ Composite Index	7,063	-1.4	-2.9	2.3	19.8	2.3	7,637	5,805	21.6
Canada S&P/TSX Composite Index	15,367	-0.2	-0.5	-5.2	-1.9	-5.2	16,421	14,786	15.2
Europe									
MSCI AC Europe (USD)	476	0.3	-1.7	-2.4	11.7	-2.4	524	419	13.7
Euro STOXX 50 Index	3,362	0.4	-2.3	-4.1	-3.3	-4.1	3,709	3,262	13.5
UK FTSE 100 Index	7,057	1.5	-2.4	-8.2	-4.3	-8.2	7,793	6,867	13.4
Germany DAX Index*	12,097	0.0	-2.7	-6.4	-0.9	-6.4	13,597	11,727	12.6
France CAC-40 Index	5,167	0.0	-2.9	-2.7	1.9	-2.7	5,567	4,980	14.3
Spain IBEX 35 Index	9,600	1.2	-2.4	-4.4	-7.4	-4.4	11,184	9,328	12.6
Asia Pacific									
MSCI AC Asia Pacific ex Japan (USD)	561	-2.9	-2.9	-1.4	16.2	-1.4	617	473	13.3
Japan Nikkei-225 Stock Average	21,159	-2.0	-4.1	-7.1	10.1	-7.1	24,129	18,225	15.9
Australian Stock Exchange 200	5,759	-3.0	-4.3	-5.0	-1.9	-5.0	6,150	5,630	15.4
Hong Kong Hang Seng Index	30,093	-3.1	-2.4	0.6	23.4	0.6	33,484	23,724	11.6
Shanghai Stock Exchange Composite Index	3,161	-3.2	-3.0	-4.4	-2.5	-4.4	3,587	3,017	12.3
Hang Seng China Enterprises Index	11,998	-3.5	-3.1	2.5	15.0	2.5	13,963	9,882	7.8
Taiwan TAIEX Index	10,846	-1.5	0.3	1.9	10.0	1.9	11,270	9,622	13.9
Korea KOSPI Index	2,436	-2.4	0.4	-1.3	12.4	-1.3	2,607	2,118	9.5
India SENSEX 30 Index	32,969	-0.1	-3.6	-3.2	11.6	-3.2	36,444	29,241	21.7
Indonesia Jakarta Stock Price Index	6,189	-1.0	-6.2	-2.6	10.7	-2.6	6,693	5,555	15.7
Malaysia Kuala Lumpur Composite Index	1,856	-1.1	0.0	3.3	6.1	3.3	1,881	1,708	16.5
Philippines Stock Exchange PSE Index	7,980	-1.8	-5.8	-6.8	9.0	-6.8	9,078	7,302	17.7
Singapore FTSE Straits Times Index	3,428	-1.8	-2.6	0.7	7.6	0.7	3,612	3,114	13.7
Thailand SET Index	1,767	-1.8	-3.5	0.8	12.2	0.8	1,853	1,532	15.9
Latam									
Argentina Merval Index	31,115	-2.5	-5.7	3.5	54.0	3.5	35,462	20,060	9.7
Brazil Bovespa Index*	85,366	0.7	0.0	11.7	30.3	11.7	88,318	60,315	12.9
Chile IPSA Index	5,542	0.5	-1.1	-0.4	14.2	-0.4	5,895	4,718	17.7
Colombia COLCAP Index	1,456	-0.9	-1.5	-3.8	6.7	-3.8	1,598	1,358	13.7
Mexico Index	46,125	-2.6	-2.8	-6.5	-5.9	-6.5	51,772	45,895	15.9
EEMEA									
Russia MICEX Index	2,286	0.0	-0.5	8.3	12.9	8.3	2,353	1,818	N/A
South Africa JSE Index	55,475	-3.1	-4.9	-6.8	5.8	-6.8	61,777	50,750	15.4
Turkey ISE 100 Index*	114,845	-1.9	-3.5	-0.4	28.6	-0.4	121,532	87,998	8.2

*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	-1.3	-3.0	-1.9	-1.9	13.5	25.2	53.9
US equities	-1.5	-3.8	-2.1	-2.1	11.9	31.3	78.0
Europe equities	0.4	-1.4	-1.9	-1.9	14.9	14.4	33.8
Asia Pacific ex Japan equities	-2.9	-2.7	-1.1	-1.1	19.2	26.4	36.7
Japan equities	-1.7	-2.8	0.1	0.1	16.3	24.5	52.3
Latam equities	-1.4	-2.5	6.4	6.4	15.1	34.1	-10.4
Emerging Markets equities	-2.8	-2.6	0.7	0.7	22.3	30.1	26.6

All total returns quoted in US dollar terms.
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.

Sources: Bloomberg and HSBC Global Asset Management. Data as at close of business 29 March 2018.

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Market Data (continued)

Bond indices - Total Return	Close	1-week Change (%)	1-month Change (%)	3-month Change (%)	1-year Change (%)	YTD Change (%)
BarCap GlobalAgg (Hedged in USD)	513	0.2	0.7	-0.2	2.3	-0.2
JPM EMBI Global	791	0.3	0.1	-2.1	2.8	-2.1
BarCap US Corporate Index (USD)	2,826	0.4	-0.1	-2.6	2.3	-2.6
BarCap Euro Corporate Index (Eur)	246	0.0	-0.1	-0.4	1.8	-0.4
BarCap Global High Yield (Hedged in USD)	465	0.0	-0.4	-0.9	4.6	-0.9
Markit iBoxx Asia ex-Japan Bond Index (USD)	193	0.1	-0.1	-1.4	1.5	-1.4
Markit iBoxx Asia ex-Japan High-Yield Bond Index (USD)	250	0.0	-0.7	-0.8	2.8	-0.8

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	1.23	1.23	1.22	1.20	1.08	1.20	1.26	1.06	0.0
GBP/USD	1.40	1.41	1.38	1.35	1.24	1.35	1.43	1.24	-0.6
CHF/USD	1.05	1.05	1.06	1.03	1.00	1.03	1.09	0.99	-0.8
CAD	1.29	1.29	1.28	1.26	1.33	1.26	1.38	1.21	0.4
JPY	106.43	105.28	106.68	112.69	111.04	112.69	114.73	104.56	-1.1
AUD	1.30	1.30	1.29	1.28	1.30	1.28	1.36	1.23	-0.2
NZD	1.38	1.39	1.39	1.41	1.42	1.41	1.47	1.32	0.4
Asia									
HKD	7.85	7.85	7.83	7.81	7.77	7.81	7.85	7.77	0.0
CNY	6.29	6.34	6.33	6.51	6.89	6.51	6.91	6.24	0.7
INR	65.18	65.11	65.18	63.87	64.91	63.87	65.89	63.25	-0.1
MYR	3.87	3.91	3.92	4.05	4.42	4.05	4.44	3.86	1.1
KRW	1,066	1,072	1,083	1,067	1,114	1,067	1,158	1,058	0.6
TWD	29.17	29.14	29.28	29.73	30.25	29.73	30.69	28.96	-0.1
Latam									
BRL	3.31	3.31	3.25	3.31	3.12	3.31	3.41	3.08	0.3
COP	2,794	2,860	2,864	2,986	2,882	2,986	3,103	2,760	2.3
MXN	18.19	18.64	18.84	19.66	18.71	19.66	19.91	17.45	2.4
EEMEA									
RUB	57.28	57.26	56.35	57.69	56.62	57.69	61.01	55.56	0.0
ZAR	11.84	11.85	11.80	12.38	13.04	12.38	14.57	11.51	0.1
TRY	3.94	3.94	3.80	3.80	3.65	3.80	4.04	3.39	-0.2

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	1.70	1.71	1.65	1.38	0.77	1.38	-1
2-Year	2.27	2.28	2.25	1.88	1.27	1.88	-1
5-Year	2.56	2.62	2.64	2.21	1.93	2.21	-6
10-Year	2.74	2.82	2.86	2.41	2.38	2.41	-9
30-Year	2.97	3.06	3.12	2.74	2.99	2.74	-9
10-year bond yields (%)							
Japan	0.04	0.03	0.05	0.04	0.05	0.04	0
UK	1.35	1.44	1.50	1.19	1.15	1.19	-9
Germany	0.49	0.53	0.65	0.42	0.34	0.42	-3
France	0.72	0.77	0.92	0.78	0.93	0.78	-5
Italy	1.78	1.88	1.97	2.01	2.13	2.01	-10
Spain	1.16	1.28	1.53	1.56	1.63	1.56	-13
China	3.77	3.78	3.85	3.90	3.28	3.90	-2
Australia	2.60	2.70	2.81	2.63	2.72	2.63	-10
Canada	2.09	2.18	2.24	2.05	1.59	2.05	-9

*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	1,326	-0.3	0.5	1.7	5.7	1.7	1,366	1,205
Brent Oil	70.3	2.0	6.8	5.1	34.1	5.1	71	44
WTI Crude Oil	64.9	1.0	5.3	7.4	31.1	7.4	67	42
R/J CRB Futures Index	195	0.1	0.7	0.8	5.5	0.8	201	166
LME Copper	6,665	-0.4	-3.8	-8.0	12.8	-8.0	7,313	5,463

Sources: Bloomberg and HSBC Global Asset Management. Data as at close of business 29 March 2018.

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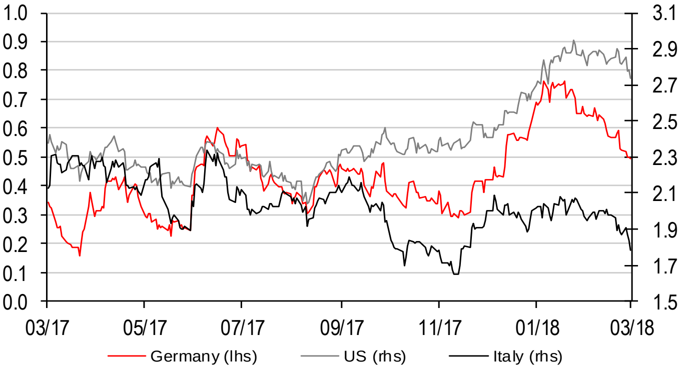
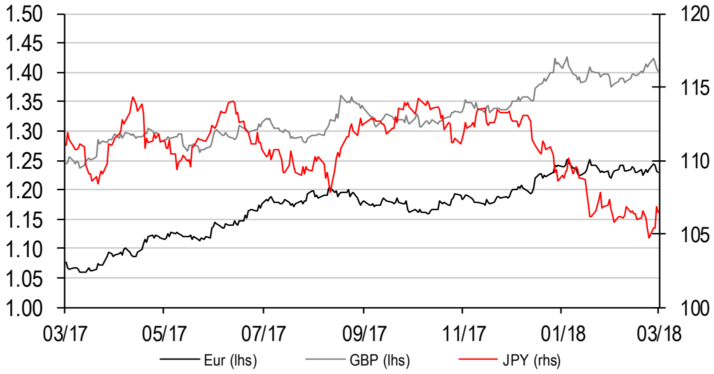
Market Trends

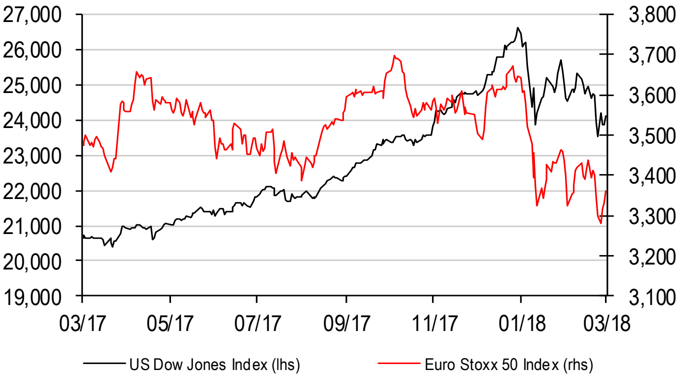
Government bond yields (%)



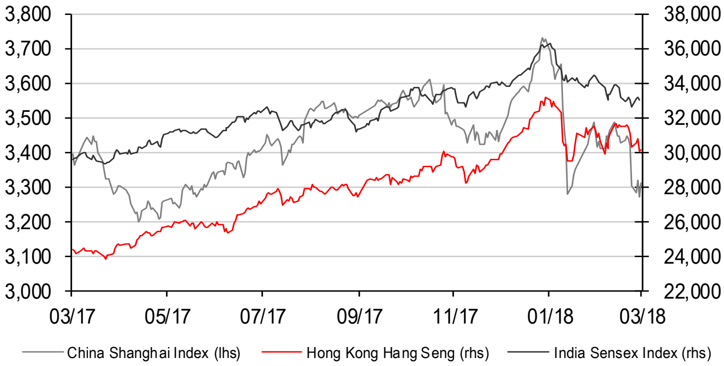
Major currencies (versus USD)



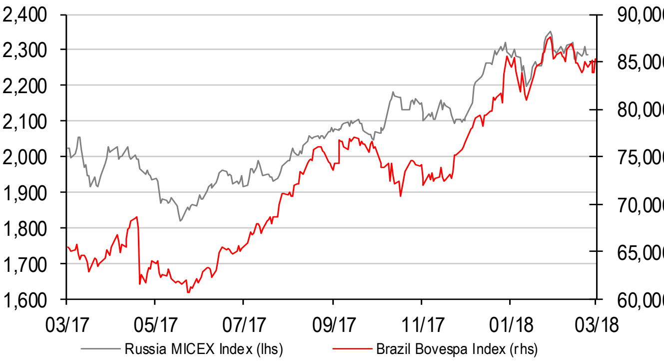
Global equities



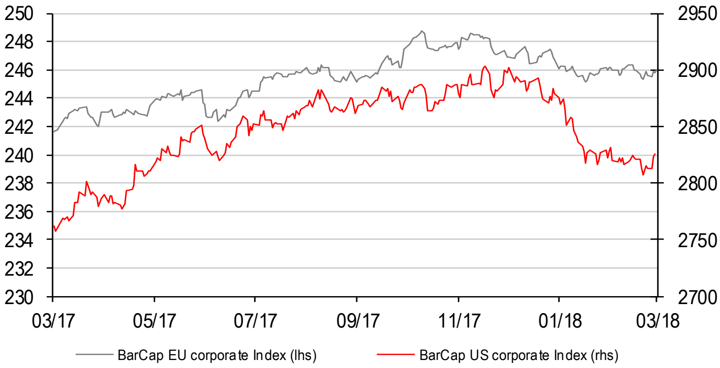
Emerging Asian equities



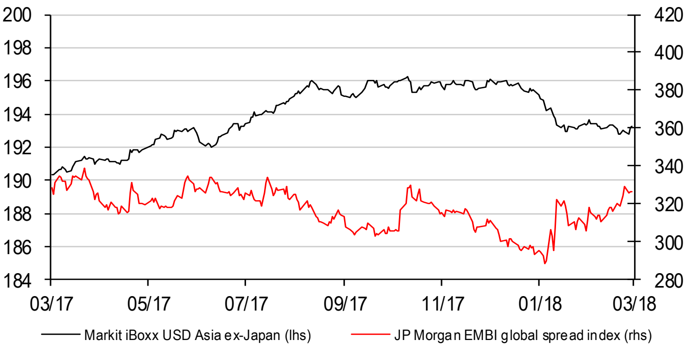
Other emerging equities



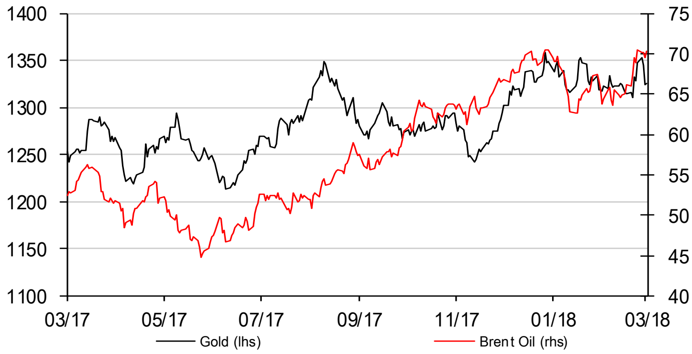
Global credit indices



Emerging markets spreads (USD indices)



Commodities (USD)



Sources: Bloomberg and HSBC Global Asset Management. Data as at close of business 29 March 2018.

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Expiry: April 27, 2018

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