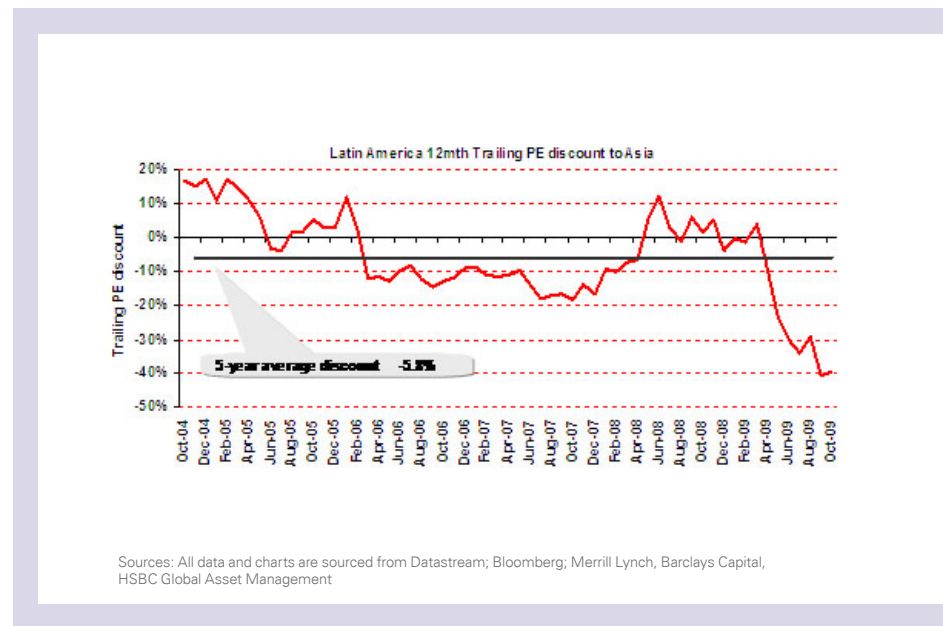


Global Investment Perspective

November 2009



In October, global equity markets fell marginally after rallying in September. The MSCI World Index fell 2.2% in October as investor optimism faded.

Too early for investor euphoria

While economic conditions have clearly improved since the beginning of the year, there is growing concern over equity prices and whether they have overshot earnings and fundamentals. The risk to growth in developed markets appears to be on the downside as employment conditions remain weak and consumer demand continues to be lethargic. This risk can perhaps be best illustrated by the decline in the UK's third quarter GDP, which fell unexpectedly by 0.4% quarter-on-quarter.

The inevitable withdrawal of government stimulus measures is a further risk to growth as markets have been riding on liquidity and economic recovery has been driven by loose monetary conditions. There is concern the magnitude of recovery experienced so far might be unsustainable once central banks start to tighten their monetary and fiscal stance. As such, it may be too early for investor euphoria.

Rotate into defensive sectors and dividend plays

Under such a scenario, investing in defensive sectors that offer relatively attractive dividend yield may be an ideal strategy. As mentioned in the previous month, relatively attractive value is emerging in defensive sectors such as telecom and healthcare as these stocks have lagged in a rising market.

Maintain preference for Latin-America equities relative to Emerging Asian equities

At a regional level, Latin American equities have the potential to outperform emerging Asia. While the 2% tax levied by Brazil on foreign investors in fixed-income securities and equity is not market friendly and will create short-term volatility, our positive view on the country and the region is unchanged as fundamentals remain strong. The positive news flow in Latin America coupled with the still highly attractive PE discount to emerging Asia are supportive of this view (see chart Above).

Market

Maintain preference for corporate bonds

We continue to maintain a positive stance on investment grade and high-yield credit. Given the strong performance from corporate bonds this year, valuations are now less appealing, but still attractive relative to the very low levels of yield offered by government bonds. Therefore, we recommend a smaller overweight position in investment grade and high-yield credit relative to earlier in the year.

Negative on the GBP relative to EUR

Within currencies, we maintain a moderately negative view on the GBP relative to the EUR as the UK's deteriorating public sector finances and decline in third quarter GDP are negative for the currency.

US

Equities Appear To Have Outrun Fundamentals Raising The Risk Of A Correction

Following a seven-month rally in equities, markets may have outrun the improvement in fundamentals. The risk of a correction has increased, especially if economic and earnings data disappoint. We maintain a moderately cautious stance on equities, both in the US and elsewhere, and we expect US equities to perform in line with other major developed equity markets.

Europe

Concerns Equity Prices Are Reflecting An Overly Optimistic Level Of Growth For 2010

The negative tone of some earnings results represents ongoing headwinds to a sustainable economic recovery. Following the strong rally, there is growing concern that current prices continue to reflect an overly optimistic level of growth for 2010. Therefore, we reiterate our moderately cautious stance on European equities and expect them to perform in line with their developed market peers.

Japan

The Combination Of A Strong JPY, Optimistic Earnings Forecasts And Concerns Of Withdrawal Of Stimulus Represents Downside Risk

A strong JPY puts pressure on exporters. Given the optimistic estimates for earnings growth in 2010, there is a risk for some negative earnings surprises. Furthermore, as fiscal and monetary support could start to be withdrawn, the risks to consumer demand and profit have increased. Therefore, we reiterate our moderately cautious view on Japanese equities relative to cash.

US

Continue To Prefer Corporate Debt Over Treasuries As Yields Remain More Attractive

Governments have managed to keep yields suppressed, through quantitative easing and stimulus measures. Once these measures end, yields are likely to rise. However, we do not expect any increase in interest rates over the next six months as the Fed is likely to err on the side of caution. Furthermore, excess capacity means that inflation expectations are not an immediate threat. But given the low yields on government bonds, we maintain our preference for corporate debt.

Asia ex Japan

Recommend a Cautious Allocation As Risk Of Negative Surprises Has Risen

The earnings of Asia ex-Japan companies grew strongly. But with y-o-y sales still negative, such a level of growth may be unsustainable if demand does not increase. In addition, we continue to believe that the positive news flow is well reflected in valuation levels. Therefore, given the still optimistic earnings growth estimates for 2010, there is now more potential for negative surprises, which supports our preference for a moderately cautious allocation to Asia ex-Japan.

Emerging Markets

Maintain Preference For Latin American Equities Over Emerging Asia

Short-term volatility in Latin American equities is likely after the introduction of the IOF tax in Brazil. Nevertheless, the region's fundamentals remain sound while the PE discount to Emerging Asia is still attractive, at 39% based on 12-month trailing PE on 30 October. Therefore, at the regional level, we recommend an overweight allocation to Latin America against Emerging Asia.

Commodity

Target Price Range Raised From US\$50-70 To US\$60-80 Due To Ongoing Weakness In USD Rather Than Improvement In Fundamentals

Overall, subdued demand and ongoing variability in investors' risk appetite are likely to keep oil price fluctuating in a range. We have raised our target range for oil from US\$50-70 to US\$60-80 a barrel as the ongoing weakness in the USD has pushed up prices.

Eurozone

Retain Preference For Corporate Debt On Valuation Grounds Retain Preference For Corporate Debt On Valuation Grounds

ECB President Trichet noted that the economic newsflow continued to "signal an improvement in economic activity". Therefore, Mr Trichet highlighted that not all liquidity measures will be needed to the same extent as in the past. Supply concerns could place pressure on Eurozone bond prices, as governments continue to issue record amounts of debt to support their economies. However, these concerns appear to be largely reflected in the bond prices. Overall, within fixed income, our preference remains for corporate debt on valuation grounds.

Interest rate/ Fixed income

Currency

Emerging Markets Debt

Valuations Of Asset Class Relative To Developed Market Corporate Bonds Is Unattractive

The current option-adjusted spread for USD-denominated emerging markets debt is now higher than the spread of a representative portfolio of US investment grade bonds (88 bps). However, the differential continues to be low relative to history. As a consequence the asset class is not very attractive from a relative valuation point of view. Emerging market debt continues to have a lower risk premium relative to other risky bonds such as high yield corporates.

Investment Grade

Underlying Conditions And Attractive Yields Remain Supportive For This Asset Class

Supply and demand dynamics for credit remain robust and the search for yield is unlikely to abate until either the government bond markets sell off dramatically

or the key central banks hike rates, neither of which we expect in the short term. Underlying conditions remain supportive for investment grade credit and we reiterate our positive view on the asset class. Positive performance is likely to continue as corporates work on mending their balance sheets, which is supportive for credit.

High Yield

Conditions Remain Supportive For Asset Class While Spreads Continue To Be Attractive Despite Recent Rally

While the high yield corporate bond markets are unlikely to continue to rally, underlying conditions remain supportive. For example, companies remain focused on balance-sheet repair, which is positive for credit. Furthermore, with many high yield credits still offering attractive yields, opportunities remain, even after the strong rally of recent months. Therefore, we reiterate our positive view on the asset class.

US Dollar (USD)

Low Interest Rates And Weak Fundamentals Are Unsupportive For The Currency

Market rates are suggesting a modest rise in US interest rates early next year. But with no inflation concerns and fragile consumption, we continue to believe the US will keep interest rates low for longer than markets are currently signaling. The level of uncertainty in foreign exchange markets remains a concern and, although reduced from the peak, volatility is high. In these circumstances, we maintain a neutral view.

Euro (EUR)

Maintain Neutral Stance Versus The USD And Marginal Preference Against The GBP

Eurozone exports have been remarkably resilient given the strength of the euro against other major currencies indicating the increasing importance of demand from emerging economies. Nevertheless, the authorities may be mindful of the level of the euro which argues for a continuing accommodative monetary stance. Overall, we maintain our neutral stance against the USD and marginal preference against the GBP given the UK's deteriorating public sector finances.

Sterling (GBP)

Maintain preference For The EUR Due To The UK's Worsening Public Sector Finances

Weighing on the currency, the Bank of England increased its quantitative easing programme at its November meeting as the economic recovery is patchy and there are concerns that bank lending to UK businesses is still low. We maintain our medium-term preference for the EUR against the GBP, based primarily on the UK's deteriorating public sector finances and a marginally unfavourable interest rate differential.

Japanese Yen (JPY)

Retain Neutral Position Given Mixed Economic Data

The expiration of the Bank of Japan's purchase programme of commercial paper and credit securities removes an element of accommodative monetary policy, but some other factors mean that it should be interpreted as a normalization of financial conditions rather than any precursor to a rise in interest rates. Whilst the BoJ is not expecting deflation to persist, deflation risks remain, which is key in assessing Japan's economic prospects and their impact on consumer spending and public sector debt. As such, we maintain our neutral view on the JPY.

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