Q3 / 2019
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HSBC Jade Perspectives

Shaping your investment portfolio

HSBC Jade

Together we thrive

Contents

A knife-edge situation...

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Right now, it feels as if markets are at a turning point. Stocks, monetary policy and geopolitics are all poised on a knife-edge, making investors understandably nervous. How will it all play out?

A new wave of volatility

Despite a stellar start to the year, markets are unsettled again amid fears around the slowing global economy and renewed US-China trade tensions. The result? Analysts[1] now expect the US to cut interest rates rather than raise them, signifying the perception that things are deteriorating.

Reflecting this, the US Federal Reserve (Fed) has adjusted its tone to signal a greater likelihood of interest rate cuts. A consideration for investors now is whether any rate cut will be soon enough and large enough. Any disappointment may cause volatility in markets.

Equities set to keep on giving

Does this mean investors should sell up and run? Not in our view. Global growth may have slowed but the economy continues to grow, and the fact remains that the Fed, along with other major central banks, has signalled a willingness to continue economic stimulus. Meanwhile, the US and China declared a tariffs truce at the G20 summit.

Because of this, we feel the stock market still has further to go. And while we are seeing signs that corporate fundamentals are starting to come under pressure at this late stage of the business cycle, potential equity returns still look good compared to bonds and cash. While we still advocate investing in global equities as a whole, we do have a slight preference for emerging market equities in a diversified portfolio. **Read our latest investment views on page 7.**

Bonds are another story

We recently downgraded our position on fixed income even further, by downgrading investment grade corporate bonds – bonds issued by high quality companies – from **neutral** to **underweight**[2].

Right now, these simply aren't offering good enough yields for our liking, largely because of low interest rates in developed markets like the US, Europe and Japan. We prefer to focus our attention on Asian and Emerging Market local currency bonds because of the better returns on offer.

The upshot: stay invested but fortify your defences

While equities still show promise, it's important to add a defensive dimension to your strategy, particularly at this late stage of the cycle. That means diversifying across asset classes to absorb volatility shocks, or adopting other **"low-volatility" strategies, as described on page 18.**

Above all, keep your investment plan up-to-date and stick to it. If the volatile conditions create an attractive entry-point, you'll be ready to take advantage.

Our best wishes for a successful quarter.

Jan-Marc Fergg   Xian Chan

1. Central Bank Pools, Thompson Reuters, Jun 2019
2. Within a multi-asset portfolio

At a glance

A summary of Q3 2019 HSBC Jade Perspectives

Investment themes

1. Volatility is the new normal
2. Be selective on bonds
3. Be more defensive in your equity strategy
4. Build a smarter portfolio

Investment Views Summary

Bonds	Q2 views	Q3 views	Change
Developed Market Government Bonds	▼	▼	-
Emerging Market Government Bonds (local currency)	▲	▲	-
Global Investment Grade Corporate Bonds	▶	▼	Downgrade
Global High Yield Corporate Bonds	▶	▶	-
Equities			
Global	▲	▲	-
United States	▲	▲	-
Japan	▲	▲	-
Eurozone	▲	▲	-
United Kingdom	▲	▲	-
Central & Eastern Europe and Latin America	▶	▶	-
Asia (excluding Japan)	▲	▲	-
Emerging Markets	▲	▲	-

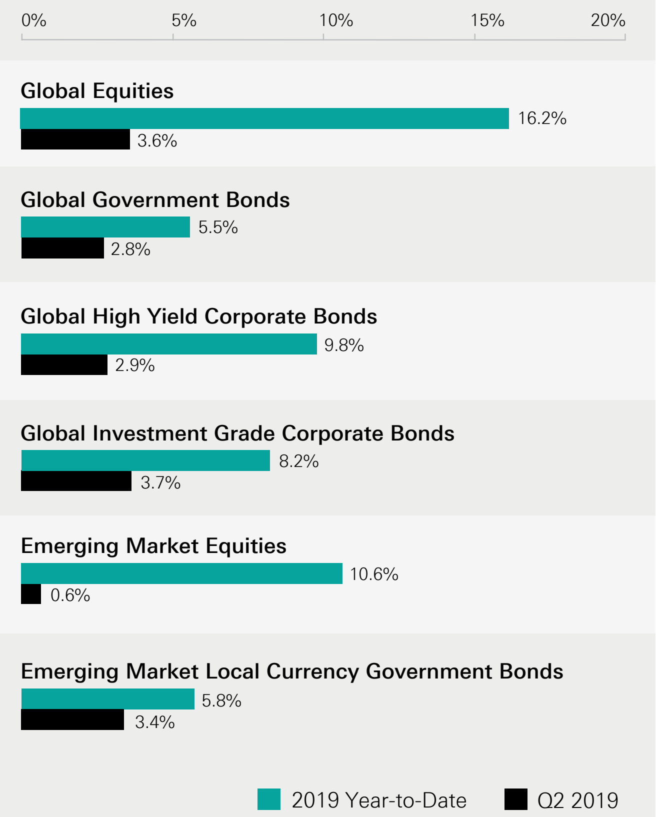
▲ "Overweight" implies a positive tilt towards the asset class, within the context of a well-diversified, typically multi-asset portfolio.

▼ "Underweight" implies a negative tilt towards the asset class, within the context of a well-diversified, typically multi-asset portfolio.

▶ "Neutral" implies neither a particularly negative nor a positive tilt towards the asset class, within the context of a well-diversified, typically multi-asset portfolio.

Source: HSBC Global Asset Management, as of Jun 2019.
For full investment views, please see page 8.

Selected asset class performance[1]



Things we are watching

Central Bank Policy
- Statements by key central bank members
- Macroeconomic data, in particular for the US and China

Geopolitics
- US-China trade tensions
- US protectionism
- Brexit negotiations
- The rise of populism

Key economic events

Jul 2019

25 Jul
European Central Bank (ECB) meeting

29 - 30 Jul
Bank of Japan (BoJ) meeting

30 - 31 Jul
US Federal Open Market Committee (FOMC) meeting

Aug 2019

1 Aug
Bank of England (BoE) meeting

22 - 24 Aug
The Jackson Hole Economic Policy Symposium

25 - 27 Aug
The 45th G7 Summit

Sep 2019

12 Sep
ECB meeting

17 - 18 Sep
US FOMC meeting

18 - 19 Sep
BoJ meeting

19 Sep
BoE meeting

HSBC Jade Perspectives is a publication specifically created for our Jade clients.

It explores the key global themes relevant to today's investors, while explaining their diverse implications.

1. Source: Bloomberg, 30 June 2019. Investment involves risks. Past performance is not indicative of future performance.

Note: the chart shows total returns of asset classes in USD dollar (USD). Asset class performance is represented by different Indices - Global Equities: MSCI ACWI Net Total Return Index; Global Government Bonds: Bloomberg Barclays Global Aggregate Treasuries Total Return Index; Global High Yield Corporate Bonds: Bloomberg Barclays Global High Yield Corporate Total Return Index; Global Investment Grade Corporate Bonds: Bloomberg Barclays Global Aggregate Corporate Total Return Index; Emerging Market Equities: MSCI Emerging Net Total Return USD Index. Emerging Market Local Currency Government Bonds: Bloomberg Barclays Emerging Market Local Currency Government Total Return Index.

Investment Views Q3 2019

Latest asset class views (>12months)

▲ "Overweight" implies that, within the context of a well-diversified, typically multi-asset portfolio, and relative to relevant internal or external benchmarks, HSBC Global Asset Management has (or would have) a positive tilt towards the asset class.

▼ "Underweight" implies that, within the context of a well-diversified, typically multi-asset portfolio, and relative to relevant internal or external benchmarks, HSBC Global Asset Management has (or would have) a negative tilt towards the asset class.

▶ "Neutral" implies that, within the context of a well-diversified, typically multi-asset portfolio, and relative to relevant internal or external benchmarks, HSBC Global Asset Management has (or would have) neither a particularly negative nor a positive tilt towards the asset class.

▼

Government bonds

Developed Markets

Yields are low and valuations are unappealing, especially after recent market activity. Nonetheless, high quality bonds can still play a key role in diversifying your portfolio.

▼

Corporate bonds

Global Investment Grade

We believe this asset class is overvalued and so have downgraded our position from Neutral to Underweight, particularly in the case of US bonds.

▲

Government bonds

Emerging Markets, local currency

Expect attractive returns for most countries, boosted by the potential for Emerging Market currency gains.

▶

Corporate bonds

Global High Yield

Corporate fundamentals look decent and defaults are low. We currently favour high-quality, high yield bonds.

▲

Global equities

While valuations are no longer cheap, a broadly positive growth outlook means equities are still more attractive than government bonds. However, corporate fundamentals are beginning to come under pressure at this stage of the cycle.

▶

Commodities

As an asset class, commodities can help to diversify your portfolio and hedge against inflation. Right now, the energy sub-sector looks to be offering the most attractive potential returns.

Source: HSBC Asset Management, as of Jul 2019

Note: views are based on regional HSBC Global Asset Management Asset Allocation meetings held throughout Jun 2019, HSBC Global Asset Management's long-term expected return forecasts generated as at 31 May 2019, and our portfolio optimisation process and actual portfolio positions. These views are not to be taken as investment advice, a recommendation to buy or sell investments or a guarantee of returns, and are subject to change without prior notice. Please refer to the latest Investment Monthly or your Relationship Manager for more long-term asset class views.

Regional equity views (>12months)

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United Kingdom ▲

UK valuations are now relatively attractive and a rebound in economic growth would improve the situation further. UK multinationals gain from a weaker Sterling when exchanging foreign earnings.

United States ▲

The US economy continues to outperform the rest. Equities are likely to benefit further from a sustained low interest rate environment in 2019.

Eurozone ▲

Eurozone equities are offering attractive potential returns right now. We expect the ECB's ultra-low interest rate policy to continue, providing more support to this asset class.

Central & Eastern Europe and Latin America ▶

Despite slower growth momentum in Latin America, there are signs of stabilisation. Central & Eastern European countries also offer attractive valuations.

Japan ▲

As well as being keenly priced, the Japanese equity market benefits from attractive valuations, supportive monetary policy and large corporate cash reserves.

Emerging Markets ▲

Great valuations and assorted structural advantages make Emerging Market equities (especially Asia) our no.1 pick right now for a diversified portfolio.

Asia (excluding Japan) ▲

Valuations are attractive and economic growth has been relatively solid. However, there are signs of deteriorating profitability in Asia at this stage of the cycle, hence we are monitoring developments closely.

Source: HSBC Asset Management, as of Jul 2019

Note: views are based on regional HSBC Global Asset Management Asset Allocation meetings held throughout Jun 2019, HSBC Global Asset Management's long-term expected return forecasts generated as at 31 May 2019, and our portfolio optimisation process and actual portfolio positions. These views are not to be taken as investment advice, a recommendation to buy or sell investments or a guarantee of returns, and are subject to change without prior notice. Please refer to the latest Investment Monthly or your Relationship Manager for more long-term asset class views.

Quarterly Themes Q3 2019

Positioning your portfolio for the coming quarter

We've already mentioned the stellar market performance in the opening months of 2019, and the subsequent drop in equity values from May onwards.

Clearly, trade tensions bear much of the blame for the souring in market sentiment. But that's not the full story.

Our current business cycle has lasted almost a decade, and we are already starting to see signs of corporate fundamentals under pressure. Risks in developed markets are increasing, driven by geopolitical uncertainties and generally slower growth. And we are watching China closely for signs of unhealthy levels of leverage and lower profitability.

So as volatility rears its head from time to time, it's perhaps only natural for investors to consider drastic safety measures.

Is switching to cash the answer?

To put it simply, no. It's our considered view that remaining invested is still the best option – not least because returns on cash are low in developed markets.

Risks of a recession are also pretty small. In fact, the outlook for growth is still good, if a little slower.

Inflation risk is being overlooked.

Markets are currently pricing interest rate cuts this year, and the Fed has signalled the same to manage worsening sentiment from trade uncertainties and a slowing economy.

Because of this, investors seem to be disregarding any possibility of higher inflation. This may be risky, because the Fed may be forced to pause or limit rate cuts, should prices go up due to higher tariffs (from trade disputes, for example). Such a scenario may surprise financial markets and cause short-term volatility. This potential risk of higher inflation forms part of our decision to downgrade US and global investment grade bonds, which may suffer in such a scenario.

The answer? A smarter portfolio.

While equity markets are close to where we'd like them to be, the factors discussed above make downside protection more important than ever.

So yes, stay invested. But take time to seek out smarter solutions that protect against the volatile reality of today's market. While a holistic, multi-asset approach is arguably the classic way to diversify risk, don't miss Vis Nayar's exploration of **low volatility investment strategies (page 16)** to position your portfolio for a potential market downturn.

Stay watchful. Be selective.

Volatility is likely at this stage of the cycle and as long as geopolitical uncertainty prevails, so have a long-term investment plan in place and stick to it. Even if you favour an opportunistic approach, the right plan will ensure you're ready to take advantage of market volatility and invest where the market is weak.

In the next few pages we've identified **four key themes** that we think will prove especially important in the coming months.

Investment themes

1

Volatility is the new normal

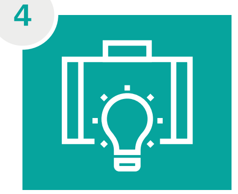
2

Be selective on bonds

3

Be more defensive in your equity strategy

4



Build a smarter portfolio

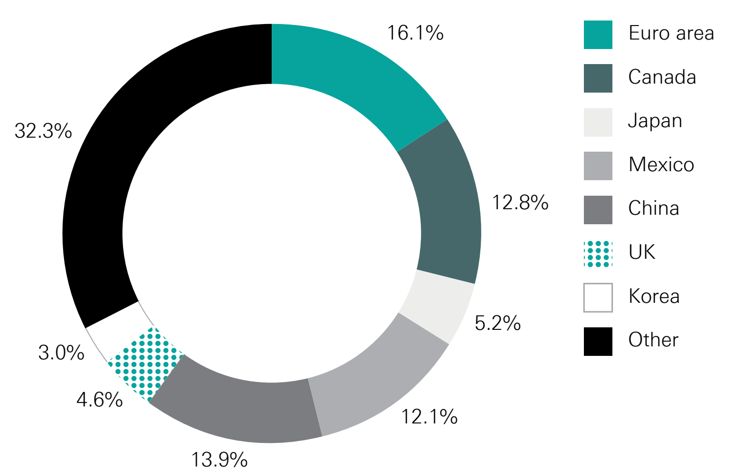
1

Theme 1

Volatility is the new normal

US trade by country

Percentage of total trade 2018, imports and exports



Source: Refinitive Datastream, as of end 2018. Data is measured as percentage of total trade in 2018 including imports and exports.

Brace for further volatility

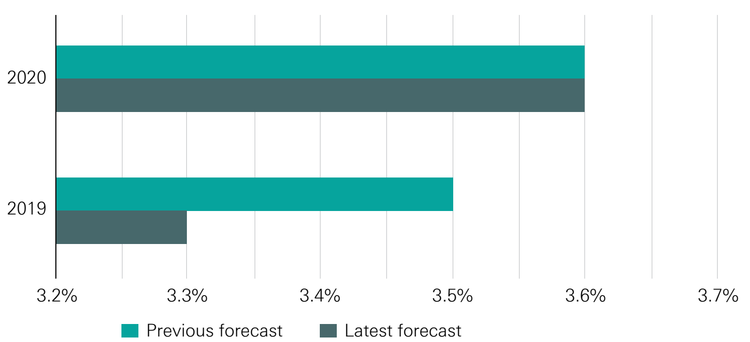
The US and China agreed to resume trade talks recently, but uncertainties towards a comprehensive deal remain. When a cocktail of trade tensions coincides with the tail-end of an economic cycle, unsettled markets are a likely result.

We believe the US and China will ultimately reach an agreement, and while a truce has been established, sporadic escalations may create volatility spikes.

Financial markets had performed fairly well year-to-date, but this changed in early May when the US increased tariffs from 10% to 25% on USD200bn worth of Chinese goods. Since then, US President Trump has also said that the US will impose a 5% tariff on all goods from Mexico.

World GDP forecast (annual change %)

Positive but weakening global growth expected



Source: International Monetary Fund (IMF), World Economic Outlook, April 2019.

Stay invested despite trade uncertainties

We believe it still makes sense to be invested in equities, as the stock market is supported by a still-growing global economy and continued low interest rates. At the same time, increased volatility could create interesting buying opportunities.

The International Monetary Fund (IMF) recently adjusted its 2019 global growth forecast from 3.5% to 3.3%, its weakest since 2009.

Nonetheless, we think GDP growth remains respectable, even at this lower, slower rate. Opportunities for investors to rebalance their portfolios should emerge in the coming months, as further volatility announces itself.

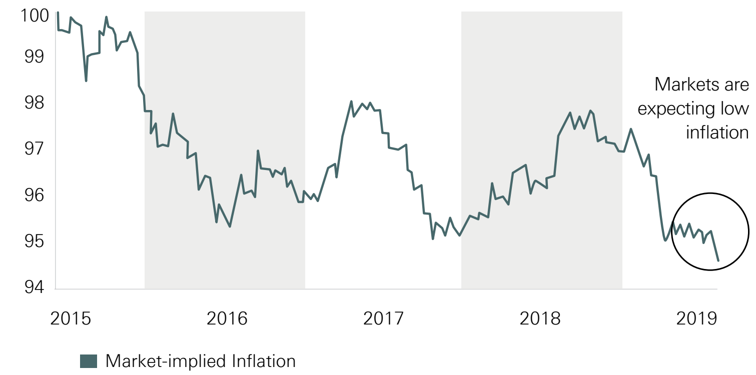
2

Theme 2

Be selective on bonds

Market pricing neglects inflation risks

An inflation pickup can shift the Fed's rhetoric



Source: HSBC Global Asset Management, as of Jun 2019.

Inflation risk is being overlooked

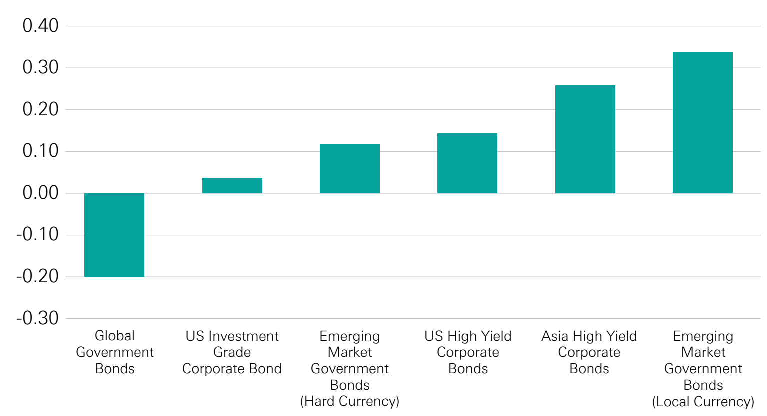
Recently, the Fed Chairman, Jerome Powell, has suggested an increasing likelihood of interest rate cuts, amid economic risks and trade uncertainties. This reinforced the market consensus for rate cuts and consequently lowered inflation expectations this year.

However, this means that an inflation "surprise", perhaps driven by aggressive trade tariffs, may cause the Fed to reconsider its position in cutting interest rates. This might surprise investors and create short-term volatility.

Bonds prospective sharpe ratios

Emerging market local currency debt and Asia high yield are most attractive.

(Sharpe ratio measures risk adjusted performance. Broadly speaking, the higher the Sharpe Ratio, the better the returns relative to the amount of risk taken.)



Source: HSBC Global Asset Management and Bloomberg, as of Jun 2019.
Investment involves risks. Past performance is not indicative of future performance.
For illustrative purpose only.

Be selective on bonds

Our position is now negative on developed market government bonds and investment grade corporate bonds.

Instead, investors should take a selective approach and look for bonds that offer attractive yields, while finding the right balance between risk and returns (such as Emerging Market local currency debt and Asia high yield).

In contrast to our high-level asset class views, short-dated high quality bonds can still play a role in mitigating volatility within a diversified portfolio.

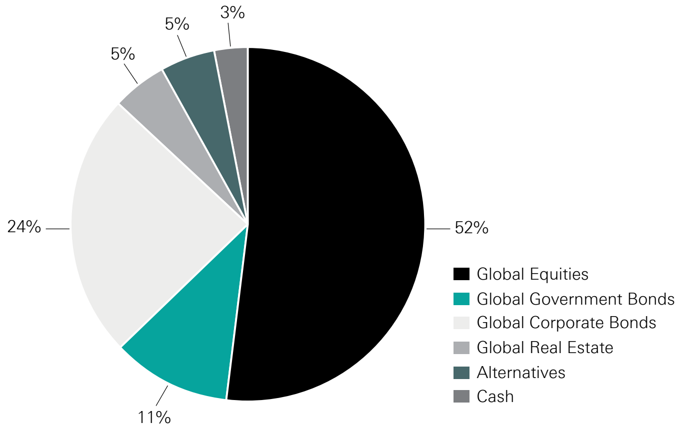
3

Theme 3

Be more defensive in your equity strategy

Current model portfolio allocation

Global equities remain a core allocation in a diversified portfolio

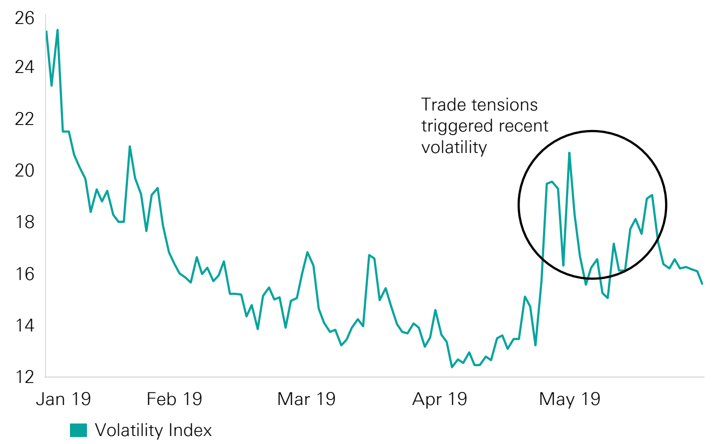


Source: HSBC Global Asset Management, as of May 2019

Note: The model portfolio allocation is for general reference only and is subject to changes from time to time without any prior notice. The model portfolio allocation is a general reference for the consideration of customers who have completed the Risk Profiling Questionnaire ('RPQ') with a 'Balanced' risk tolerance. Please note that a model portfolio allocation which matches or is lower or higher than your risk tolerance may not be suitable for you.

Equity market implied volatility

Volatility spiked in May because of trade uncertainties



Source: Refinitiv datastream, as of 30 Jun 2019.

Note: equity market implied volatility is measured by Chicago Board Options Exchange S&P 500 Volatility index.

Favour global equities as a whole

Although equities are no longer cheap, they remain more attractive than bonds. At this stage in the cycle, we're inclined to invest in global equities as a block rather than cherry-picking individual geographies.

Equities are now trading near their historical valuation averages, as measured by traditional price-to-earnings ratios.

Our case for investing in equities is driven more by the still solid economic growth outlook, which ensures they remain more attractive than bonds.

Be more defensive in your equity choice

When investing in equities, we advocate a more defensive approach, due in large part to the short-term geopolitical risks at hand, and the increasing pressure in corporate fundamentals at this stage of the cycle.

A key option to consider is the inclusion of low-volatility equity strategies within your allocation framework to protect against downside risk.

Volatility spiked recently because of trade uncertainties and is likely to return periodically.

Investors should therefore explore equity strategies that limit volatility on the downside while still offering exposure to gains in the stock market.

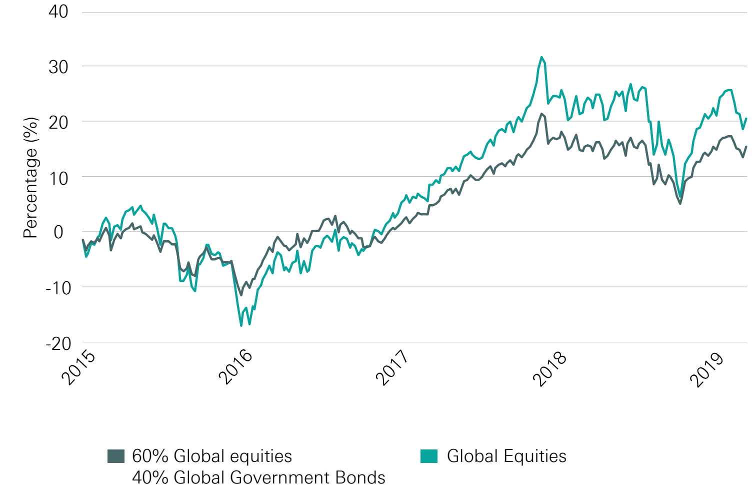
4

Theme 4

Build a smarter portfolio

A balanced portfolio has delivered a smoother ride

A 60/40 portfolio would have limited downside risk

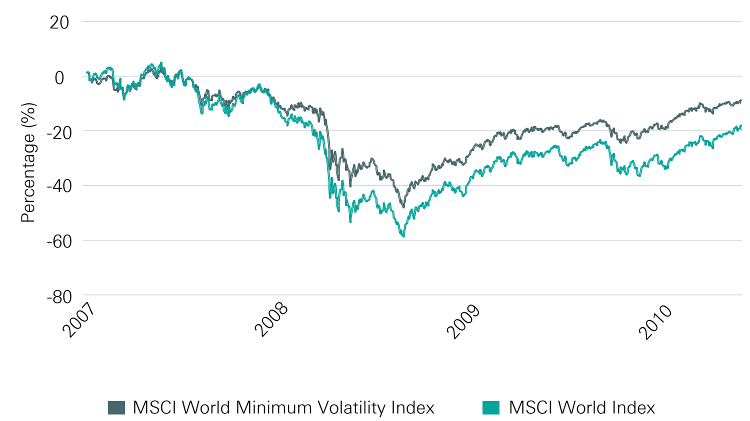


Source: Refinitiv Datastream, as of 11 Jun 2019

Note: Asset class performance is represented by different indices - Global Equities: MSCI ACWI Net Total Return Index (USD); Global Government Bonds: Citigroup World Government Bonds Index (USD). Investment involves risks. Past performance is not indicative of future performance. For illustrative purpose only.

MSCI World vs MSCI World Minimum Volatility Index

Historically, low volatility equity strategy could limit downside risk



Source: Bloomberg, as of 11 Jun 2019.

Note: Investment involves risks. Past performance is not indicative of future performance. For illustrative purpose only.

Multi-asset investing is smart investing

The simplest (and arguably most effective) way to manage your portfolio in volatile times is to invest across different asset classes and geographies.

Multi-asset investing helps ensure your core portfolio is appropriately diversified while still remaining invested in the right opportunities.

Historically, a classic multi-asset portfolio (with 40% allocated to bonds and 60% to equities) would have limited downside risk in a down-market compared to a 100% equity portfolio. As well as offering a smoother ride, it will allow the investor to participate in market rallies.

Consider innovative options

A low-volatility equity strategy aims to achieve equity returns with a lower volatility profile. Like multi-asset investing, this enables investors to access the equity market while managing downside risks in the event of a sell-off.

Alongside this strategy, it also pays to look beyond equities and bonds towards investments that have a looser correlation with the stock market. This might include liquid alternatives (e.g. liquid hedge funds) and real estate.

HSBC Perspective

Growing your portfolio: a “low-volatility” approach

Vis Nayar
Deputy CIO, Equities,
HSBC Global Asset Management

At a glance

- Analysts believe volatility will be a feature of financial markets for a while to come, and that investors should adjust their strategy accordingly.
- A low-volatility equity strategy is one option to consider, as it combines a defensive allocation approach with potential to gain from market rallies.
- Though principally designed to reduce portfolio risk, HSBC’s “profitability-driven” approach to low-volatility stock selection can also optimise performance.

First things first. What is a “low volatility equity strategy”?

“Volatility-focused” equity investing is an active portfolio management philosophy with a strong defensive component. It’s based on an apparent paradox: that low-risk stocks deliver better risk-adjusted returns than high-risk stocks.

Why is it relevant to today’s investors?

Late 2018 was a turbulent time for equity markets (fig 1), and we now expect volatility to be with us for some time to come. In a climate like this, it makes sense to consider an equity approach that’s defensive, yet still able to provide stable equity returns. Another advantage is that volatility-focused investing often generates attractive dividends.

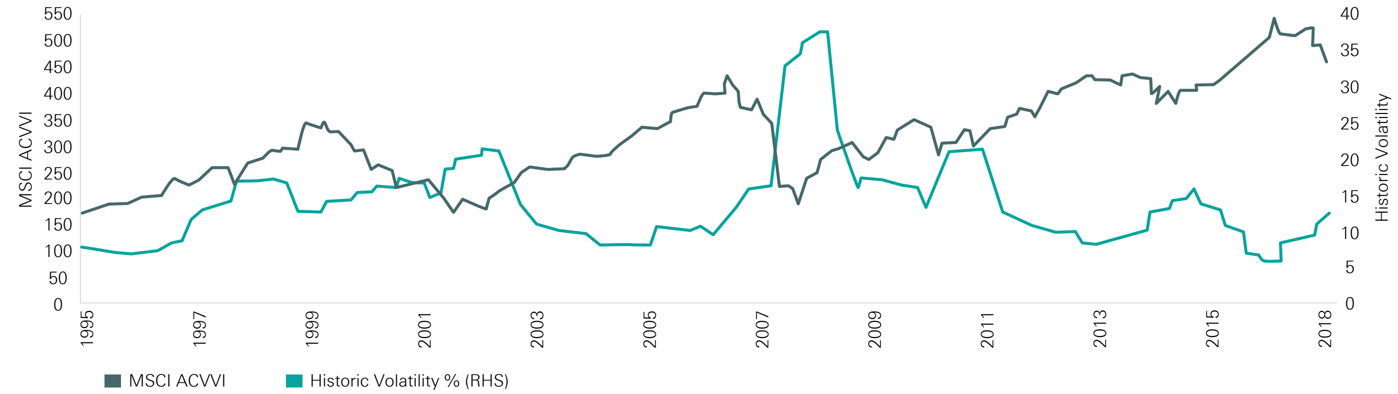
What are the key principles?

A volatility-focused strategy has three main aims.

Firstly, it seeks to offer **a smoother performance pattern** that softens the impact of equity volatility on your overall returns. As well as giving you greater confidence in meeting your various obligations and liabilities, it allows for tactical (yet balanced) allocations to more volatile stocks when desired. It also aims to deliver **better risk-adjusted returns**, which may enhance its appeal to those with a more cautious risk profile.

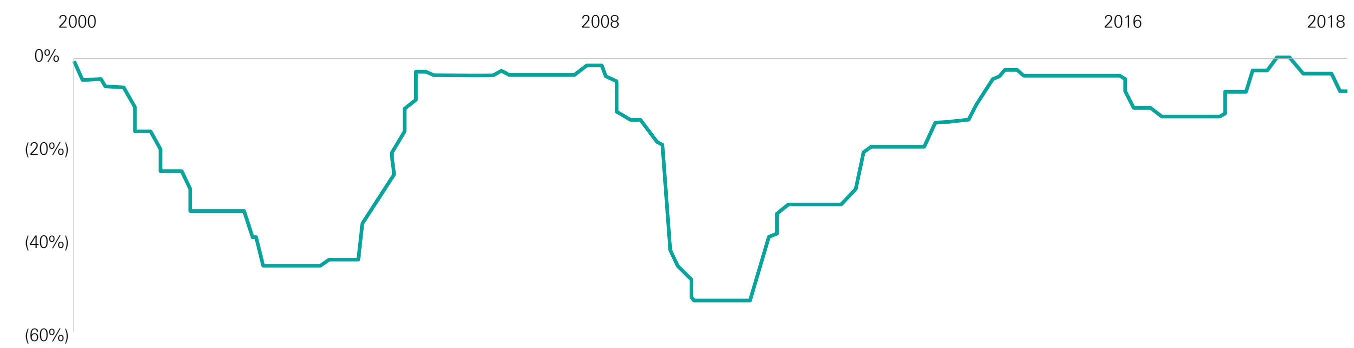
This type of strategy can also offer **tapered changes in the price of a security**, allowing investors to achieve long-term returns with less likelihood of triggering a de-risking or sell decision.

Fig 1. Equity market level and historic volatility
(MSCI All Country World Index - October 1995 to December 2018)



Source: HSBC Global Asset Management, to December 2018.

Fluctuation of security prices in the MSCI All Country World Index
(Rolling 12-month drawdowns)



Source: HSBC Global Asset Management, from December 1999 to December 2018.

How do you implement such a strategy to generate favourable returns?

While many low-volatility approaches restrict their options to low-volatility stocks, we focus first and foremost on investment attractiveness.

Why? Because volatility aside, we still believe it’s vital to consider company valuations in relation to profitability. We therefore combine proprietary research with an integrated analysis of environmental, social and governance factors (ESG) to assess each stock’s volatility characteristics as well as its long-term profitability.

Having identified the appropriate stocks, we apply a quantitative “risk-return” analysis to create a low-volatility portfolio, combining lower-volatility shares with higher-volatility, less correlated counterparts to enhance diversification. The overriding goal is reduced portfolio risk, although the quality of the stock selection is also intended to drive outperformance.

What are the defining characteristics of a low-volatility portfolio?

Typically, **sector exposure** will be balanced across both cyclical and defensive sectors (the latter being generally less sensitive to economic cycles). Overall **portfolio volatility** will rise and fall in line with that of the invested stocks, and may be reduced further by purchasing more lower-volatility defensive stocks.

And finally, how do you go about identifying the appropriate stocks?

Our Profitability-Valuation ranking process helps us evaluate stocks to optimise return potential. Quantitative analysis of historical stock prices shows that higher ranking stocks, on average, tend to outperform over time. Equally, companies with higher profitability generally have the flexibility to distribute dividends or reinvest in the business, increasing potential returns.

External Perspective

Using scenario analysis to manage portfolio risk

Thomas Donilon
Chairman of the BlackRock Investment Institute

Dr. Elga Bartsch, PhD
Head of Economic and Markets Research, BlackRock Investment Institute

At a glance

- The current wave of geopolitical and trade disputes poses threats to investor confidence in the economic cycle.
- Traditional indicators of overheating suggest a low risk of recession. However, these may not be the most salient metrics in today's environment.
- With trade wars on several fronts and a growing threat to cohesion in Europe, investors should diversify their portfolios to weather disruptions.

Reading the signs: is a downturn on the way?

As the US economy enters the late stage of the cycle and global growth begins to slow, fears of a downturn could begin to ruffle markets. But we still see room to run for the current economic expansion, given easy monetary policies and few signs of financial imbalances. At the same time, continuing trade tensions have increased economic uncertainty, widening the range of potential outcomes ahead.

One risk scenario: a reversal of the globalisation trend of past decades. This could disrupt global corporate supply chains, sap potential growth and lead to higher inflation. Right now our **Recession Probability Indicator**, which monitors the build-up of destabilising influences like excess leverage (a recurring trigger of past downturns), points to a relatively low but rising risk of a downturn (see our Recession Watch chart). However, traditional recession metrics tend not to factor in trade protectionism or macroeconomic uncertainty - both of which, in our view, pose the greatest threat to current economic expansion.

Global trade tensions go beyond US-China

The US is embroiled in trade disputes on multiple fronts, with China the most prominent. President Trump's determination to close the bilateral trade gap has been accompanied by tough rhetoric from both sides, along with tit-for-tat tariffs and escalating tensions over US restrictions on Chinese tech. A de-escalation looks unlikely any time soon, and any trade truce is unlikely to represent a détente in the relationship between the two. Why is this? Because tensions between the two are structural, with trade considerations closely intertwined with national security and rivalry over next-generation technology.

But US-China is only part of the story. In the Americas, the US-Mexico-Canada Agreement looks increasingly far from ratification. Meanwhile, deteriorating trade relations between the US and the European Union are a major cause for concern, especially with the US threatening import tariffs on European cars and parts.

As the BlackRock Geopolitical Risk Index (BGRI) shows, markets are again highly alert to the effects of global trade disruption, which had slackened somewhat since last year's peak.

We expect the inevitable twists and turns in these relationships to cause bouts of market anxiety. Although the direct economic impact of tariffs and other trade measures may be limited, it's harder to predict or measure the possible knock-on damage to market confidence or disruptions to global supply chains.

Europe's cohesion under threat

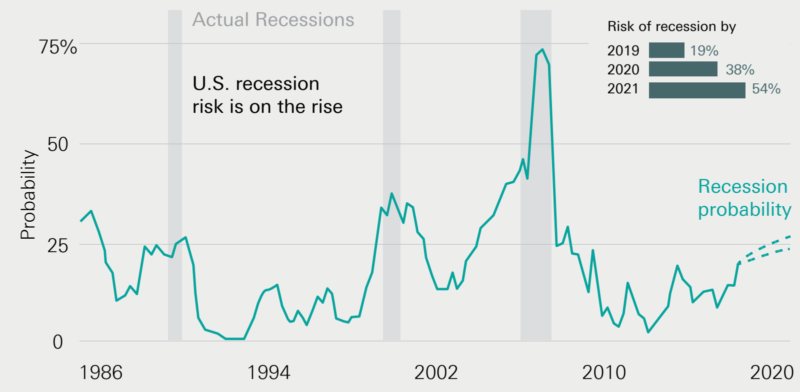
Our BGRIs also point to heightened market attention to the subject of European fragmentation, one of the top-10 geopolitical risks we monitor. A Brexit delay reduces near-term risks, but uncertainty over the long-term UK-EU relationship remains elevated. European parliamentary elections delivered a mixed result that saw anti-EU populist parties, among others, gain at the expense of mainstream parties. Meanwhile further tensions related to Italian budget negotiations look likely to bubble up in the coming months.

The bottom line

Overall, our research suggests that risk assets can still perform well in late-cycle periods. However, if signs arise of a more pronounced growth slowdown or if trade disputes intensify, further macro uncertainty is likely to follow. Risk management is critical in this environment, and portfolio diversification can help smooth the ride. We see quality assets as an important source of portfolio resilience. These include US Treasuries, which can act as potential buffers against late-cycle selloffs, thanks to the traditionally inverse relationship between equity and government bond returns.

Recession watch

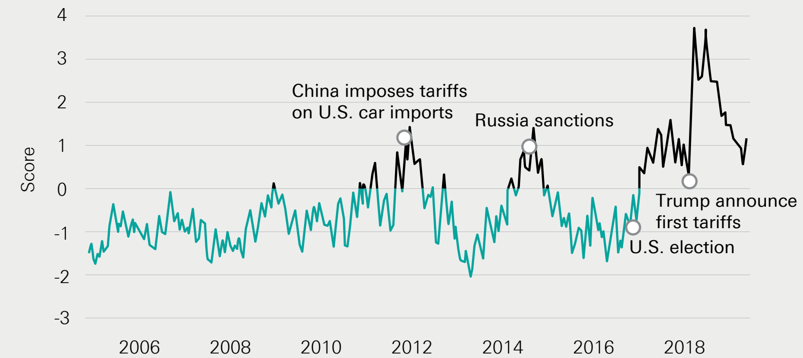
BlackRock estimate of forward-looking U.S. recession probability



Source: BlackRock Investment Institute, with data from Thomson Reuters, November 2018.

Notes: The chart shows the estimated four-quarter-ahead probability of a U.S. recession. Actual U.S. recessions as defined by the U.S. National Bureau of Economic Research are denoted by the shaded areas. The estimation is done via a series of quantile regressions that estimate the probability that growth will be below a certain threshold. The 2019 and 2020 probabilities (dotted lines) are based on a range of likely outcomes of financial conditions, financial vulnerabilities and growth. The insert chart shows the sumulative probability of being in a recession by the end of each noted year. Forward-looking estimates may not come to pass.

Global trade tensions



Source: BlackRock Investment Institute, with data from Thomson Reuters.
Data as of May 31, 2019.

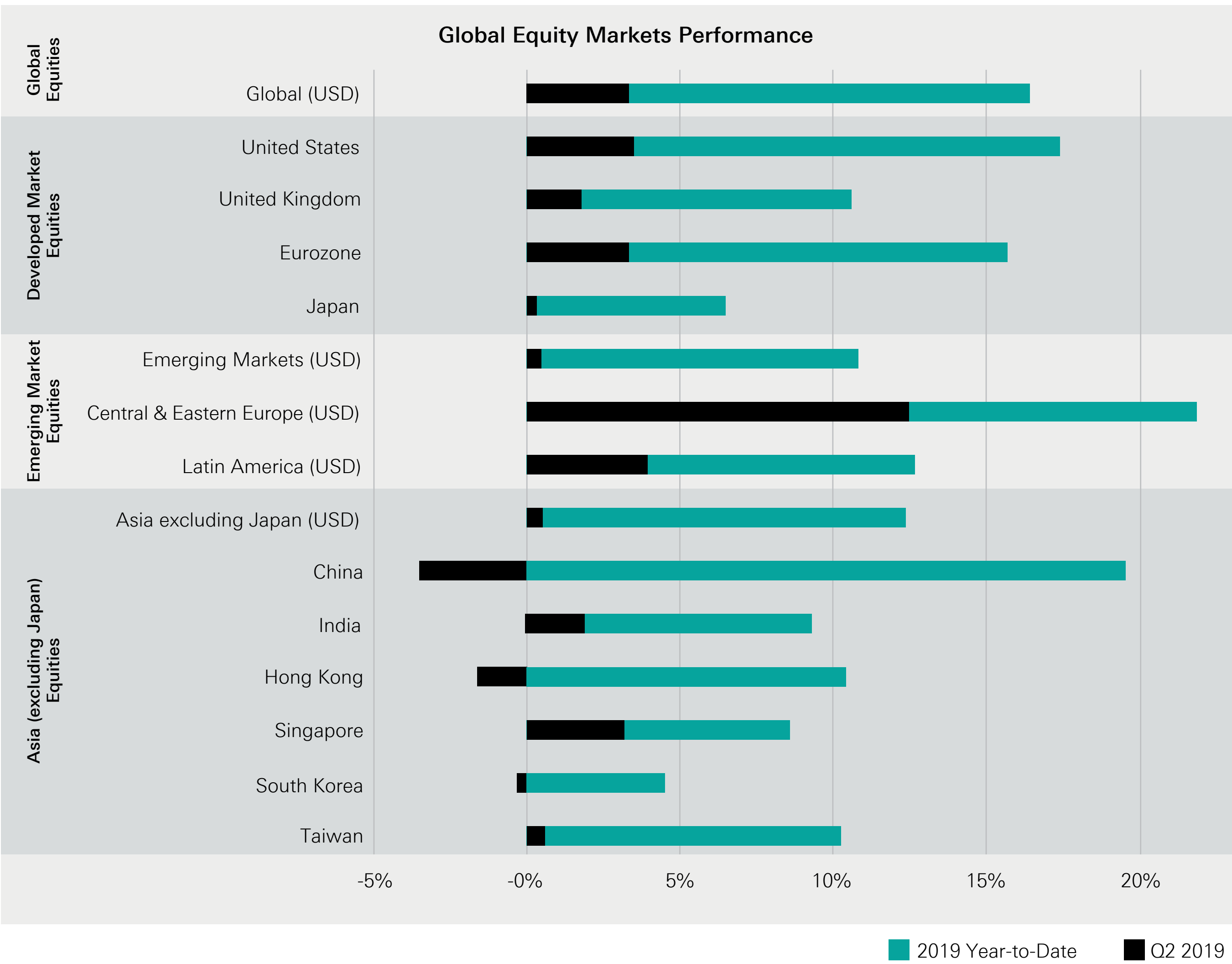
Notes: We identify specific words related to this geopolitical risk and use text analysis to calculate the frequency of their appearance in the Thomson Reuters Broker Report and Dow Jones Global Newswire databases as well as on Twitter. We then adjust for whether the language reflects positive or negative sentiment, and assign a score. A zero score represents the average BGRI level over its history from 2003 up to that point in time. A score of one means the BGRI level is one standard deviation above the average. We weigh recent readings more heavily in calculating the average. The BGRI's risk scenario is for illustrative purposes only and does not reflect all possible outcomes as geopolitcal risks are ever-evolving.

Markets Review

Equities

After a pleasingly energetic start to 2019, equities have beaten a slight retreat over the last quarter, due mainly to yet another downturn in US-China trade relations.

But even in the midst of these challenges, market sentiment has stayed resilient. There are reasons to be positive - the global economy is still growing, the Fed has signalled the willingness of cutting rates, and the US and China has just reached a trade war truce. These factors should be supportive for the equity market.



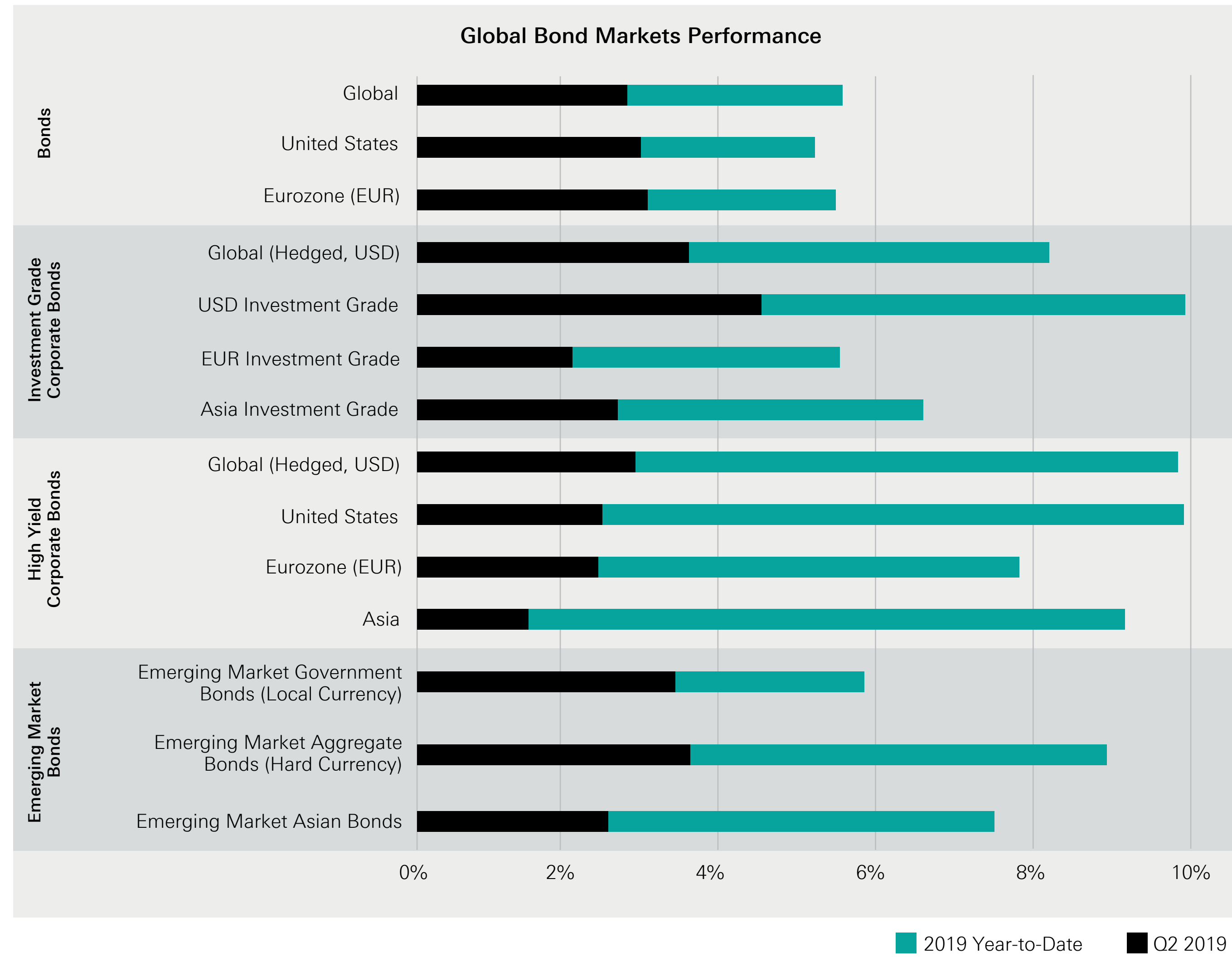
Source: Bloomberg, as of 30 Jun 2019. Investment involves risks. Past performance is not indicative of current or future performance.

Note: total returns of asset classes are shown in local currencies, unless otherwise stated. Equities performance is represented by different Indices – Global Equities: MSCI ACWI Net Total Return Index (USD). US Equities: S&P 500 Index (USD). UK Equities: FTSE 100 Index (GBP). Eurozone Equities: EURO STOXX 50 (EUR). Japan Equities: Nikkei 225 Index (JPY). Emerging Market Equities: MSCI Emerging Net Total Return Index (USD). Central & Eastern Europe Equities: MSCI Emerging Market Eastern Europe Net Total Return Index (USD). Latin America Equities: MSCI Emerging Latin America Net Total Return Index (USD). Asia (excluding Japan) Equities: MSCI AC Asia Pacific ex Japan Net Total Return Index (USD). China Equities: Shanghai Stock Exchange Composite Index (CNY). India equities: S&P BSE SENSEX Index (INR). Hong Kong Equities: Hang Seng Index (HKD). Singapore Equities: FTSE Straits Times Index (SGD). South Korea Equities: Korea Stock Exchange KOSPI Index (KRW). Taiwan Equities: Taiwan Stock Exchange Weighted Index (TWD).

Bonds

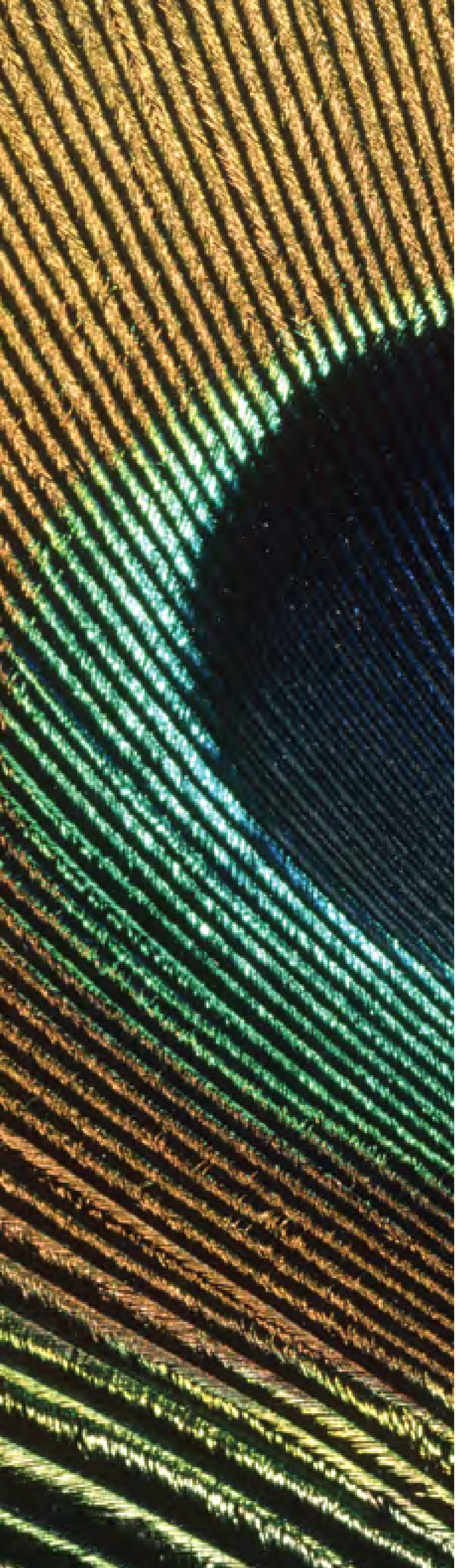
US Treasury bonds were rallying (yields fell) as trade uncertainty raised concerns over the global economic outlook. Poor US employment figures in June only served to accelerate the effect.

Meanwhile, European government bonds gained significantly as yields fell towards their lowest levels in two years. In corporate bonds, global investment grade and high-yield credit both delivered positive returns year-to-date, at around 8% and 10%, respectively.



Source: Bloomberg, 30 Jun 2019. Investment involves risks. Past performance is not indicative of current or future performance.

Note: total returns of asset classes are shown in US dollar (USD), unless otherwise stated. Bonds performance is represented by different Indices – Government Bonds: Global Government Bond (Hedged, USD): Bloomberg Barclays Global Aggregate Treasuries Total Return Index (Hedged, USD); US Government Bond: Bloomberg Barclays US Government Total Return Index; Long-dated Treasury Bond: Bloomberg Barclays Long US Treasury Total Return Index; Short-dated Treasury Bond: Bloomberg Barclays Short Treasury Total Return Index; Eurozone Government Bond: S&P Eurozone Sovereign Bond Total Return Index (EUR); Investment Grade Corporate Bonds: Global Investment Grade Corporate Bond (Hedged, USD): Bloomberg Barclays Global Aggregate Corporate Total Return Index (Hedged, USD); USD Investment Grade Corporate Bond: Bloomberg Barclays US Corporate Total Return Index; EUR Investment Grade Corporate Bond: Bloomberg Barclays Euro Aggregate Corporate Total Return Index (EUR); Asian Investment Grade Corporate Bond: Markit iBoxx USD Asia ex-Japan Corporates Investment Grade Total Return Index. High Yield Corporate Bonds: Global High Yield Corporate Bond (Hedged, USD): Bloomberg Barclays Global High Yield Corporate Total Return Index (Hedged, USD); USD High Yield Corporate Bond: Bloomberg Barclays US Corporate High Yield Total Return Index; EUR High Yield Corporate Bond: Bloomberg Barclays Pan-European High Yield Total Return Index (EUR); Asian High Yield Corporate Bond: Markit iBoxx USD Asia excluding Japan High Yield Total Return Index. Emerging Market Bonds: Emerging Market Government Bond (Local Currency): Bloomberg Barclays Emerging Market Local Currency Government Total Return Index; Emerging Market Aggregate Bond (Hard Currency): Bloomberg Barclays Emerging Market Hard Currency Aggregate Total Return Index; Emerging Market Asian Bond: Markit iBoxx USD Asia excluding Japan Total Return Index.



Glossary

Asset class: a group of securities that show similar characteristics, behave similarly in the marketplace, and are subject to the same laws and regulations. The main asset classes are equities, fixed income, and commodities.

Asset allocation: the allocation of funds held on behalf of an investor to various categories of assets such as equities, bonds and others, based on their investment objectives.

Company fundamentals: the intrinsic value of a company as analysed by looking at its revenue, expenses, assets, liabilities and other financial aspects.

Diversification: often referred to as "not putting all your eggs in one basket", diversification means to invest in a variety of different markets, products and securities to spread the risk of loss.

Duration: duration is a measure of the sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates. The longer a fund's average duration, the more sensitive the portfolio is to shifts in interest rates. Duration is expressed as a number of years.

Fiscal policy: the use of government spending and tax policies to influence macroeconomic conditions such as aggregate demand, employment, inflation and economic growth.

Investment strategy: the internal guidelines that a fund follows in investing the money received from its investors.

Inflation: the rise in the general price levels of goods and services in an economy over a period of time.

Maturity: the date when the issuer of a bond or debt obligation repays the principal (the original amount invested).

Monetary policy: process by which the authorities of a country control the supply of money. This often involves targeting a rate of interest for the purpose of promoting economic growth and stability.

Sharpe Ratio: measures risk adjusted performance, calculated by dividing the average monthly excess return of the portfolio over return of risk-free investment by the standard deviation of the portfolio. It explains the return compensate the investors per unit of risk taken. Generally, the higher a portfolio's Sharpe ratio, the better a portfolio's returns have been relative to the risk it has taken on.

Volatility: a term for the fluctuation in price of financial instruments over time.

Contributors

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With many years' experience in investment banking, wealth management and financial markets, Jan-Marc has an in-depth perspective on all aspects of the industry. As Deputy Head of Group Wealth Management, he currently leads the development of our investment products, financial planning, and research & insights strategy. He is also responsible for the evolution of HSBC's wealth advisory process.

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Cynthia leads the creation and communication of relevant, timely and thought-provoking market insights for colleagues and clients around the world. Her research coverage includes macroeconomics, asset allocation, FX and thought-leadership topics.Prior to HSBC, Cynthia was a portfolio strategist and senior analyst at a number of global banks, and the Chief Investment Officer at an ultra-high-net-worth family office.

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Vis has worked in the financial industry for over 30 years, accumulating extensive research and portfolio management experience in long-only equities, alternative investments and structured products. He joined HSBC Global Asset Management in 1999 – having worked for HSBC Markets since 1996 – and is responsible for equity investment research and development of equity products. He is a CFA charterholder, qualified as a Chartered Accountant in the UK, a member of the advisory board for the masters programmes at Imperial College and a current member of the FTSE Industry Classification Committee.

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Elga has more than 20 years' macro research experience. She is a member of the ECB Shadow Council, a trustee of the IFO Institute for economic research, and has served on and chaired the Economic and Monetary Policy Committee of the German Banking Association. Prior to joining BlackRock, she was Global Co-Head of Economics and Chief European Economist at Morgan Stanley in London.

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