HSBC PREMIER

Global Investment Perspective

Global equity markets were positive in September. The MSCI World index climbed 3.1%. The positive performance was largely driven by a resurgence in M&A activity and further evidence that an economic recovery has begun in the US.

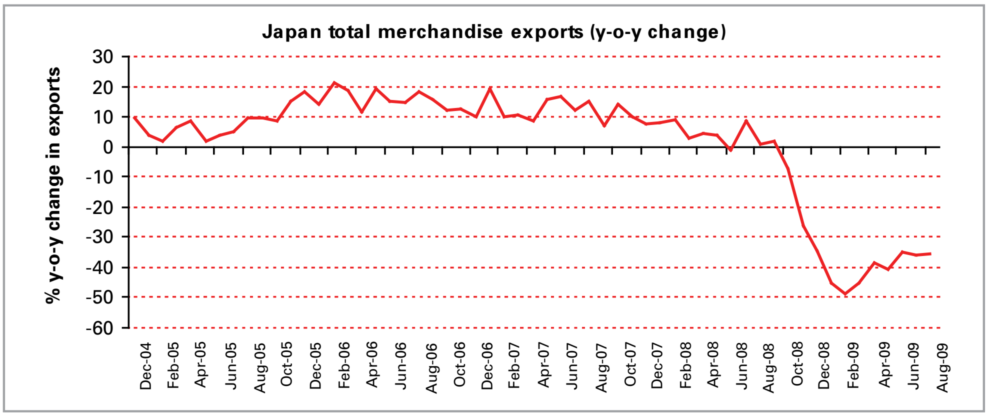
October 2009

Economic activity has improved, but remains weak on an absolute level

While certain leading economic indicators have either stabilised or improved, the absolute level of activity is still quite depressed from its previous low levels a year ago. For instance, in some key markets, such as Japan, exports are still down significantly from a year ago.

Valuations are no longer compelling

At the same time, global equity market valuations are comparable to early 2007 levels. While valuations are not expensive, they can no longer be considered appealing. And as we consider earnings growth forecasts for 2010 are on the high side, this poses a challenge as the risk of disappointment is considerable if they are not supported by an improvement in economic data.



Source: Bloomberg, based on S&P 500 companies, data as of August 27th 2009.

Defensive sectors offer both relative value and yield pick up

Global equity markets have rallied strongly in the first half of the year on expectations the economy would recover during the second half. But as growth is expected to be anaemic for a while and could be moderate next year, markets appear to have moved ahead of the fundamentals and a correction in equities is possible. Under such a scenario, investing in defensive sectors that offer a relatively attractive yield may be a preferable strategy. Relatively attractive value is emerging in defensive sectors such as telecom and healthcare, as these stocks have lagged in a rising market which has been fuelled by liquidity and risk appetite.

At a regional level Latin American equities, that have so far lagged the market rally, have the potential to outperform emerging Asia. The positive news flow in Latin America coupled with the still highly attractive Price/Earnings ratio discount to emerging Asia are supportive of this view.

Negative on the GBP relative to EUR

Within currencies, we maintain a moderate negative view on the GBP relative to EUR, as the UK's deteriorating public sector finances are negative for the currency. And while inflation in the UK has receded to below the government target, the Bank of England noted that the country's CPI remained "surprisingly high". As such, this is a further reason to be negative on the GBP as inflation would affect the real yield on UK assets.

Markets

US
Defensive Sectors Offer Safety And Relative Value As Risk Of Market Correction Is Rising

- A sustainable pick up in top line growth is yet to materialise, whilst the risk of negative surprises from optimistic forecasts remain elevated. Given the rising risks for a correction, we continue to prefer the relative safety of global healthcare and telecommunication services relative to more cyclical sectors.

Europe
Growing Concern Current Market Valuations Reflect Overly Optimistic Earnings Growth Outlook

- Rising unemployment rates as well as subdued consumption levels remain the key headwinds to future earnings growth and economic recovery. There is a growing concern that current share prices reflect an overly optimistic level of future growth for 2010. At the regional level, we expect European equities to perform in line with their developed market peers.

Japan
Combination Of Less Attractive Valuations And Weak Growth Outlook

- The level of uncertainty regarding Japan's economic outlook for 2009 and 2010 remains high with the unemployment rate at an elevated level and consumption showing limited signs of improvement. Despite the recent decline in valuation levels, Japanese stocks remain less attractive than at the beginning of the year with implied level of earnings growth looking overly optimistic.

Global Emerging Markets
Maintain Preference For Latin American Equities Over Emerging Asia

- We reiterate our preference for Latin American equities over emerging Asia. Latin America is trading at a discount of 41% against Emerging Asia, whilst the 5 year average discount stands at 5%. There is also more potential for positive economic surprises in Brazil from domestic demand.

Asia ex-Japan
Recommend a Cautious Allocation Given Potential For Negative Surprises In Near Term

- Given the relatively optimistic consensus earnings growth estimates for 2009 and 2010 for Asia ex-Japan companies we believe there is more potential for negative surprises in the short to medium term and would still favour a cautious allocation to Asia ex-Japan equity markets on the whole.

Interest Rate/ Fixed Income

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

- The US Federal Reserve continues to emphasise that accommodative policies are likely to stay in place and as such the Federal Funds target rate is likely to remain low. Overall, we continue to prefer a neutral position in US Treasuries relative to cash. However, given the low yields offered by government bonds, we favour holding corporate debt.

Investment Grade
Less Appealing Valuation, But Still Positive On This Asset Class Relative To Government Bonds

- A variety of measures of credit conditions have shown improvements over the course of the year and systemic risks to the asset class are now lower. 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 believe a smaller overweight position in the asset class relative to earlier in the year is appropriate.

Emerging Market Debt
Appealing Valuations, But Less So Than Corporate Debt

- Improving economic data continues to support the asset class. Based on spreads, the valuation gap between USD denominated EMD and Global High Yield continues to favour the latter from a valuation point of view. However, Emerging-Market Debt continues to have a lower risk premium relative to other risky bonds such as high yield corporate issues.

Eurozone
Retain Preference For Corporate Debt On Valuation Grounds

- 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.

High Yield
Sentiment Remains Supportive For Asset Class While Spreads Continue To Be Attractive

- After the very strong performance, we recognise that valuations are closer to fair value than previously thought. However, with an option-adjusted spread for global high yield bonds of around 8%, a coupon-clipping strategy remains attractive, even in the absence of further spread narrowing. Furthermore, sentiment remains supportive and spread levels remain attractive relative to longer term history and versus earnings yield offered by equities.

Commodity

Oil
Subdued Demand And Fluctuation In Risk Appetite Are Likely To Keep Oil Price Trading Within A Range

- Our central scenario remains one of subdued and below-trend growth in 2010 for the major developed economies. Subdued demand and ongoing variability in investors' risk appetite are likely to keep the oil price fluctuating in a range. We reiterate our view of oil trading in the US$50-70 range.

Currency

US Dollar (USD)

Currency Lacks Strong Fundamental Support

- The robustness of the US recovery is still under scrutiny and not providing fundamental support to the USD. Also, the USD is unlikely to find support as we have not seen anything to change our opinion that the Federal Reserve will err on the side of caution and keep rates low for longer than current forward money market rates suggest.

Euro (EUR)

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

- Despite further upward revisions in consensus forecasts for 2010 GDP, the Eurozone remains the expected economic laggard of the world next year. Overall we keep our neutral stance against the USD and marginal preference against the GBP.

Sterling (GBP)

Maintain Negative View As Growth Profile For The UK And Deteriorating Public Finances Are Unfavourable For The Currency

- Our preference for the EUR against the GBP, based primarily on the UK's deteriorating public sector finances and a marginally unfavourable interest rate differential, has been the right view recently and one we maintain. Against other currencies, we retain a neutral viewpoint.

Japanese Yen (JPY)

Retain Neutral Position As Fundamental Data Are Not Supportive Of The Currency

- A strengthening JPY is unlikely to find medium-term favour because of the impact on exporters. Deflation risks are the most prevalent in Japan of the major economic areas with negative implications. The recent trend has been positive but much of the fundamental data are not supportive so we retain our neutral position.