Wealth Management Advisory

Standard Chartered Private Bank

Turning up the heat

2018 Outlook (In-brief)

Welcome to **2018** Outlook

2017 surprised on the upside and was a great year for investors. Global equities rallied over 20%, while commodities, bonds and alternative strategies also generated positive returns.

Our recommended gradual pivot towards more growth areas of the equity market – away from high dividend yielding equities and corporate bonds – paid off. As an example, our Asia-focused tactical asset allocation model for a moderate risk investor rose 14.2% since our Outlook 2017 publication, significantly outperforming its strategic benchmark*. Meanwhile, our preferred multi-asset income allocation still rose a very healthy 11.4% over the same period. Of course, not all our views worked as we expected, but even where our relative preferences did not play out, they generally delivered positive returns for investors (see page 98 for a more detailed analysis of the performance of our views).

So, what about the outlook for 2018? Investors are understandably concerned about high valuations in both equity and bond markets, including corporate bonds.

In the Goldilocks ("not too hot, not too cold") economic environment we have been experiencing, where global growth has become more synchronised, inflation pressures are still muted and central banks have remained accommodative, one can find solid arguments to justify the high levels of valuation. However, we are cognisant that such an environment cannot go on forever.

In 2017, we predicted a pivot to a more reflationary outcome combining stronger economic growth with rising inflation. Growth accelerated in 2017, but inflation did not. We believe this process is still under way and that a gradual 'heating up' of the global economy is likely in 2018.

Global growth is expected to remain relatively strong, weakening somewhat in China, but accelerating in the US and in Emerging Markets excluding China. Meanwhile, rising commodity prices and declining slack in the global economy, whether it be in labour markets or product markets, are likely to be tailwinds for inflation.

Rising inflation is likely to put upward pressure on interest rates and bond yields. Our core scenario is this happens gradually, but even then, it will be increasingly difficult for investors relying predominantly on bonds to generate the level of total returns witnessed in the recent past, even on a leveraged basis, as rising yields will lead to lower prices.

Against this backdrop of waning support for income assets, we have two overarching suggestions for investors. First, we believe investors should continue pivoting towards pro-growth areas of the markets as we recommended in 2017. Despite elevated valuations, we believe equity markets will continue to do well. Still-strong growth and relatively modest increase in inflation are likely to support global corporate earnings growth of 10% in 2018.

Second, as we move even more clearly into the late stage of the global economic cycle, we believe it is time to start thinking about protecting against sharp drawdowns once the cycle turns. Our central scenario is that a recession is unlikely in 2018 given significant excess capacity in many major economies (eg. southern Europe, China, India, Brazil and Russia) and very well-anchored inflation expectations after years of low inflation. However, we are also cognisant that predicting recessions is incredibly difficult and, by the time a recession becomes apparent, the damage to investment portfolios is already severe.

Against this backdrop, in addition to pivoting to pro-growth assets, we would consider increasing, as the year progresses, our allocation to less volatile, less correlated and relative investment strategies. In particular, a diversified allocation to alternative strategies can help improve the risk-reward profile of investment allocations over the long run and can be particularly valuable in times of stress. For now, given our constructive view on global equities, we would continue to have a tilt to Equity Hedge strategies, but this should not be at the expense of a more diversified approach, including Global Macro strategies, which can offer insurance-like characteristics in times of severe risk-off environments.

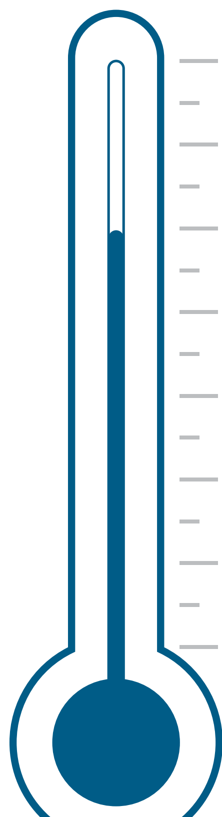
Alexis Calla

Global Head Investment Advisory and Strategy &
Chief Investment Officer

*Views taken from the Outlook 2017 publication, updated in the Global Market Outlook publication through the year. The benchmark used is our Strategic Asset Allocation model as updated in February 2017.

Turning up the heat

Steve Brice | Manpreet Gill



- **Economic growth continues to simmer**: The "Goldilocks" environment (ie. not too hot, not too cold) of strong growth and limited inflation is likely to extend into the early part of 2018. Continued earnings growth means equities and corporate bonds have room to extend gains going into 2018, in our view.
- **Turning up the heat on inflation**: Inflation is the main risk to this "Goldilocks" scenario, especially further into 2018. A larger-than-expected rise in inflation would mean the environment could turn too hot, forcing central banks to slam on the brakes.
- **Investment implications**: Our view is that we are at a mature stage in the US business cycle. Equities tend to do very well late in the cycle, a trend which is behind our preference for equities. Our view that the US Dollar will weaken modestly supports our preference for bonds in Emerging Markets – specifically USD sovereign and Asia corporate bonds. However, we believe there is value in staying nimble as we go through 2018. An allocation towards Alternative Strategies is likely to help maintain exposure to our preferred asset classes while starting to contain potential downside risks, in our view.

2017 proved to be a very positive year for financial markets against a Goldilocks (ie. not too hot, not too cold) economic backdrop. The strong performance of equities and corporate bonds was led by earnings growth across major regions, range-bound government bond yields and rising valuations. The fact that inflation in the US and Euro area has remained contained meant that worries over excessive monetary policy tightening and a turn in direction towards unwinding monetary stimulus failed to derail markets. Emerging Market assets fared very well amid this environment of optimism, especially as the US Dollar softened.

Recent strong economic data suggests this "Goldilocks" environment can spill over at least into the start of 2018. Having said that, we are cognizant that Goldilocks environments cannot carry on forever. Our Group Investment Committee continues to be of the view that we are at a fairly late stage in the business cycle, with the US further along than the Euro area or Asia ex-Japan. The historical perspective that equities tend to see some of the strongest gains in the final stages of the business cycle is one key factor behind our preference for equity markets. This largely holds true for other pro-cyclical assets like corporate bonds as well.

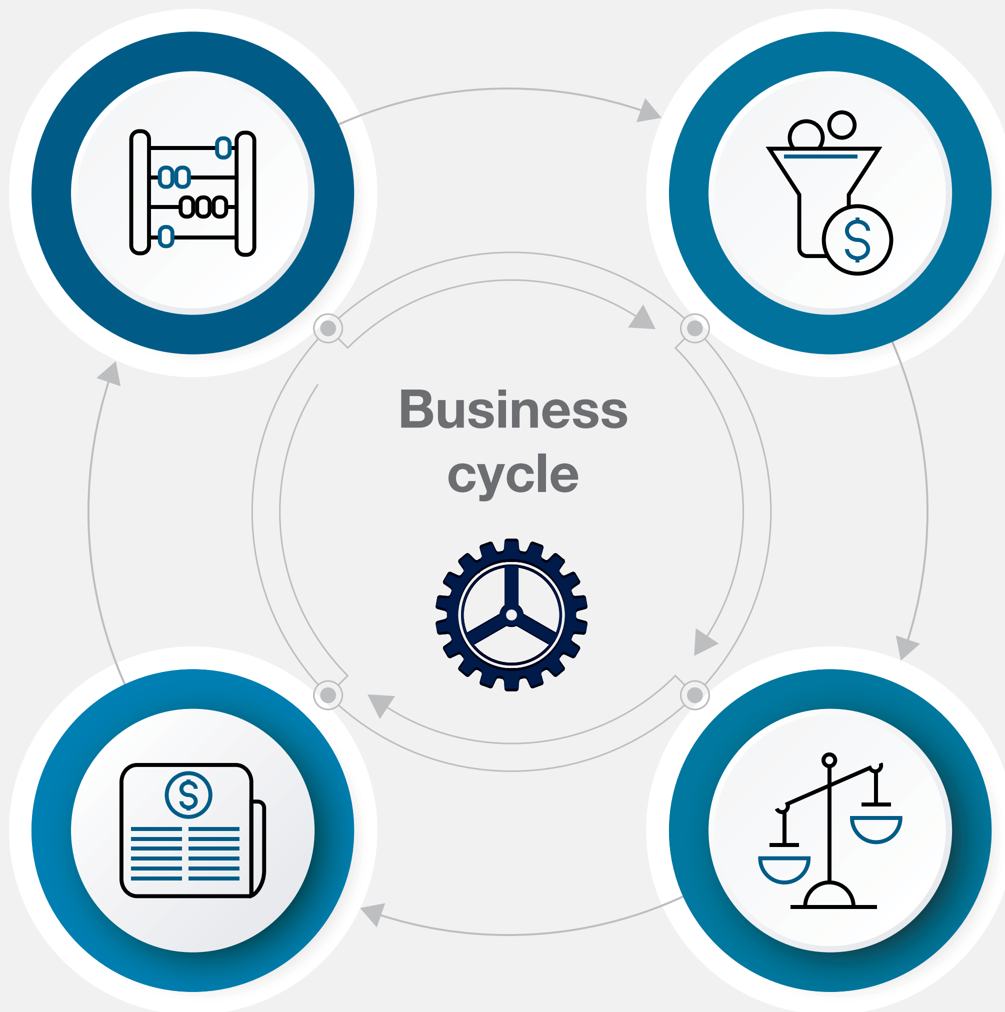
However, it is extremely difficult to time the end of the cycle. The fact that US equities and high yield bond markets have historically peaked six to nine months ahead of a US recession makes the investment decision even harder. Therefore, we believe there is value in starting the year continuing to favour equities, while also starting to think about managing downside risks by allocating to alternative strategies which have lower drawdown risks and correlations with traditional asset classes.

Late stage business cycle

- Equities tend to outperform in the late cycle. Valuations not yet a constraint
- US economy likely at a later stage than the Euro area or Asia ex-Japan
- However, need to stay nimble as we could reach a turning point in 2018

Inflation

- Modest, continued reflation likely to extend Goldilocks environment near term
- Faster-than-expected inflation creates risk of accelerated monetary policy tightening



Policy shifts

- QE withdrawal, higher US and potentially Euro area interest rates could pose a headwind
- Magnitude of China deleveraging efforts key to its market impact
- US fiscal stimulus could offer a positive offset

External risks

- Number of geopolitical flashpoints exist (Korea, Middle-East)
- Trade policy an ongoing risk

Investment implications and key themes

EQUITIES

Equities our preferred asset class

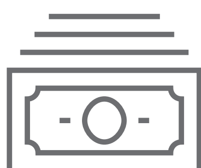
Key themes

- Asia ex-Japan equities to outperform global equities
- Euro area equities to outperform global equities
- South Korea equities to outperform Asia ex-Japan equities
- China equities to outperform Asia ex-Japan equities

Our preference for equities stems from two sources. First, equity valuations still offer room for gains; while they are undoubtedly above long-term averages in most regions, historically they have, on average, delivered positive returns from similar levels in the past. Second, earnings growth remains reasonably strong, driven in many regions by margin expansion, offering grounds for further gains beyond just higher valuations.

Asia ex-Japan is one of our preferred regions, supported by both margin expansion as well as valuations that remain inexpensive relative to Developed Markets. See the equities section for more details on our country preferences within the region.

The Euro area is also a preferred equity region. Strong domestic consumption and the likelihood of greater investment spending favour continued earnings growth. Italian elections pose a political risk, but we believe these will remain well-contained and short-lived.



BONDS

We see bonds as a core holding

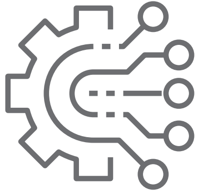
Key themes

- Emerging Market (EM) USD government bonds to outperform global bonds
- Asia USD corporate bonds to outperform global bonds

We have a preference for Emerging Markets within bonds as we believe they offer an attractive balance between yield and quality at this time.

Within this, we prefer Emerging Market USD government bonds given our view that the asset class offers a combination of a reasonably attractive yield (at c.5%) sourced from a mix of both investment grade and high yield sovereigns. While a high sensitivity to rising US Treasury yields is a risk, our view that the 10-year Treasury yield will remain centred around 2.50%, together with the relatively higher yield buffer on offer, is positive.

We also prefer Asia USD corporate bonds, though we have a strong preference for investment grade over high yield within this. One of the most remarkable characteristics of this bond asset class has been the low volatility relative to Developed Market bonds, which we believe is likely to be valuable late in the economic cycle and/or if volatility broadly rises unexpectedly. Accelerated Chinese deleveraging is a risk, though we believe this is likely to be a greater risk for HY bonds rather than IG.



MULTI-ASSET AND ALTERNATIVE STRATEGIES

Diversification via Multi-Asset and Alternative Strategies

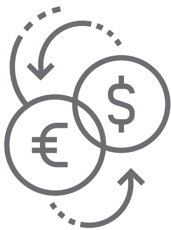
Key themes

- Multi-asset balanced strategies to outperform multi-asset income strategies
- Equity Hedge strategies to outperform other alternative strategies

The high likelihood of further equity market gains late in the economic cycle is a significant factor behind our preference for multi-asset balanced strategies. The higher presence of growth assets relative to an income strategy should be the main source of this outperformance, in our view.

Having said that, we still believe multi-asset income strategies are likely to deliver positive absolute returns given our view that, short of a major inflation surprise, any rise in yields should remain contained.

Meanwhile, we believe alternative strategies offer attractive exposure given the difficulty in timing the market peak towards the end of the economic cycle. Equity Hedge strategies offer room to obtain equity and bond market exposure, albeit giving up some upside in return for more contained downside. At the other extreme, macro strategies continue to offer what we believe to be insurance-like characteristics, should the cycle turn sooner than we expect.



CURRENCIES

Modest USD weakness to drive FX markets

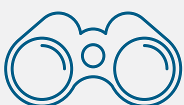
Key themes

- US Dollar to weaken modestly
- EM currencies to gain against the USD
- EUR, KRW to strengthen against the USD
- JPY to weaken against the USD

We believe the USD is likely to continue to weaken modestly in 2018, short-term reversals notwithstanding. A greater room for monetary policy surprises in Europe is largely responsible for this view given further Fed rate hikes are unlikely to dramatically surprise the market, while the start of European Central Bank (ECB) rate hikes would likely be a surprise.

The context of this US Dollar view means that we expect the EUR to extend gains, especially if the ECB remains on the path of gradually removing monetary policy accommodation. The JPY, though, is unlikely to benefit from this support given what appears to be a continued lack of domestic inflation.

A softer US Dollar is also likely to be beneficial for the broad Emerging Market currency universe. Within this, though, we believe the KRW is likely to be one of the biggest beneficiaries as the Korean economy benefits from continued improvement in US growth via exports.



Key asset class views

Equities (Preferred)	
US	Core holding
Euro area	Preferred
UK	Less preferred
Japan	Core holding
Asia ex-JP	Preferred
Other EM	Core holding

Bonds (Core holding)	
Govt DM IG	Less preferred
Govt EM USD	Preferred
Govt EM LCY	Core holding
Corp DM IG	Core holding
Corp DM HY	Core holding
Corp Asia USD	Preferred

Commodities (Core holding)	
Energy	Core holding
Precious	Core holding
Base	Core holding

Alternative Strategies (Core holding)	
Equity Hedge	Preferred
Relative Value	Less preferred
Event Driven	Less preferred
Global Macro	Less preferred

Cash (Less preferred)	
FX: EUR	Preferred
FX: KRW	Preferred
FX: JPY	Less preferred

Preferred | Less preferred | Core holding

Macro overview
At a glance

Rajat Bhattacharya

Key themes

Global growth is expected to accelerate in 2018 for the second straight year, led by the US and Latin America, while China, Japan and the Euro area stabilise after a strong pick-up in 2017. We expect the ongoing synchronised economic expansion across regions to continue, on the back of still-easy financial conditions and robust consumer and business confidence.

We expect a modest upturn in core inflation worldwide, especially in the US, as tightening labour markets fuel wage pressures and spare productive capacity narrows.

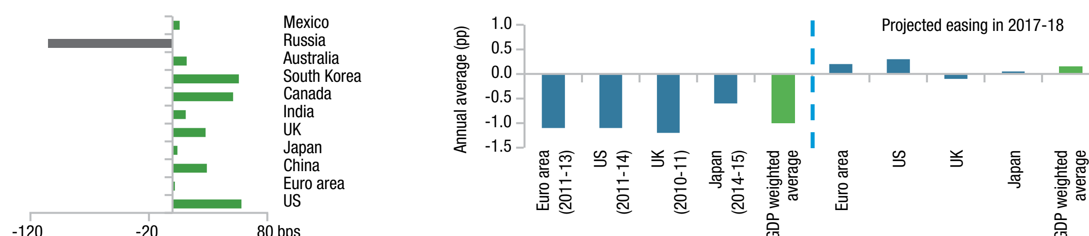
Monetary policy outlook is turning less accommodative. We expect the Fed and some Asian central banks to raise rates at a gradual pace over the coming year. However, inflation-adjusted policy rates are likely to remain negative in major economies, including the Euro area and Japan.

The key risk scenarios, we believe, are two-fold: 1. Inflationary downside, or a sharp upturn in inflation, eventually leading to tighter monetary policies and a growth downturn (15% probability). 2. Return to deflation, likely caused by a hard-landing in China or a too-early/too-fast pace of Fed rate hikes (10% probability).

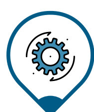
Key chart

Figure 1

Monetary policy is likely to tighten gradually worldwide; this is likely to be offset by less stringent fiscal policies



Source: Bloomberg, Fitch Ratings, Standard Chartered



Key drivers

Region	Growth	Inflation	Benchmark Rates	Fiscal Deficit	Comments
US	Supportive	Neutral	Neutral	Supportive	Growth to accelerate for second year. Fed to stick to gradual rate hikes under Powell amid muted inflation. Risk of overheating from tax cut
Euro Area	Supportive	Neutral	Supportive	Neutral	Synchronised expansion to continue. Inflation to remain tepid amid slack in southern Europe. ECB to withdraw stimulus, but rate hikes unlikely
UK	Not supportive	Not supportive	Neutral	Neutral	Brexit uncertainty remains key risk. Purchasing power further hit by rising inflation, slowing wages. BoE likely guided by Brexit talk outcome
Japan	Supportive	Neutral	Supportive	Neutral	Abe's re-election positive for stimulus, growth. BoJ to maintain easy monetary policy as inflation remains well below target, despite recent uptick
Asia ex-Japan	Supportive	Neutral	Supportive	Neutral	President Xi to focus on quality of growth, while ensuring financial stability. India's growth to recover. South Korea expected to hike rates
Emerging Markets ex-Asia	Supportive	Neutral	Supportive	Neutral	Brazil and Russia rate cutting cycle coming to a close as inflation rebounds. Mexico to cut rates

Source: Standard Chartered Global Investment Committee

Legend: Supportive of risk assets | Neutral | Not supportive of risk assets

Multi-asset
At a glance

Aditya Monappa, CFA | Audrey Goh, CFA | Trang Nguyen

Key themes

Broadening growth coupled with rising inflation solidify the pivot towards reflation in our scenario-based outlook, in our view. In 2018, we continue to prefer a growth-tilted allocation and expect it to outperform a multi-asset income strategy focused on yielding assets.

A multi-asset income allocation, while underperforming its growth-tilted counterpart, should deliver a positive return alongside a yield in the 4-5% range. However, expensive income assets suggest yields are likely to be at the lower end of this range.

Despite increasing confidence in Emerging Market assets, we prefer a globally diversified multi-asset income allocation versus one purely focused on EM assets, which has potentially much higher risk. We do, however, suggest a large (~40%) allocation to EM within a global allocation.

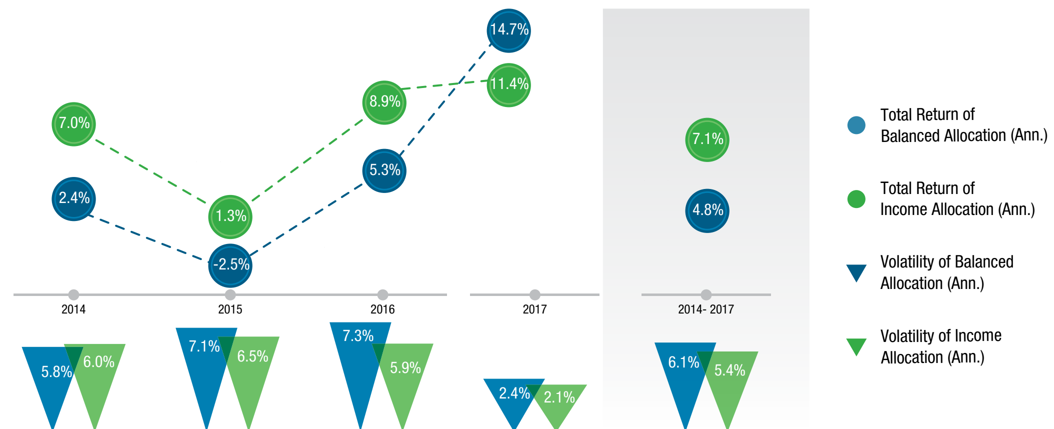
For investors focused on leveraged strategies to generate yield, returns in 2018 are unlikely to match the strong 2017 performance as borrowing costs rise amidst still compressed longer term bond yields.

Key chart

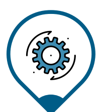
Figure 1

For the first time in four years, a balanced allocation outperformed the multi-asset income allocation in 2017

Performance comparison of balanced and income allocation between 2014 and 2017



Source: Bloomberg, Standard Chartered. For indices used, refer to end note at the conclusion of this section.
Income allocation is as described in our H2 Outlook, Should I stay, or…?, 30 June 2017, page 30
Balanced allocation as described our Global Market Outlook, Fresh opportunities to pivot, 31 March 2017, page 28



Key drivers

Income Asset Classes	Weight	Yield	Income Potential	Capital Growth	Risk of Pullback	Comments
Bonds	58%	4.4	Yellow	Yellow	Yellow	Portfolio anchor; source of yield; sharp move in yields a risk
Equity Income	20%	4.7	Yellow	Yellow	Red	Key source of income and modest upside from capital growth, potential for large pullbacks
Non-core Income	22%	4.6	Yellow	Yellow	Yellow	Useful diversifier for income and growth; sharp move in yields a risk for certain non-core assets

Source: Bloomberg, Standard Chartered. Non-core income includes Preferred Equity, Global REITs, Convertible Bonds, Contingent Convertible Bonds and Covered Calls. Refer to Important information related to Contingent Convertibles at the end of this document.
Legend: Green: Attractive potential/low risk | Yellow: Moderate potential/medium risk | Red: Unattractive potential/high risk

Bonds
at a glance

Manpreet Gill | Abhilash Narayan

Key themes

We view bonds as a core holding in a well-diversified investment allocation as we expect only a gradual rise in Developed Market (DM) government bond yields. We expect the 10-year US Treasury yield to remain anchored around 2.50% as we see a low likelihood of a sharp rise in long-term inflation expectations.

Emerging Market (EM) bonds are expected to outperform bonds from the US and Europe on the back of a modestly weaker USD and relatively attractive yields. EM USD government and Asian USD bonds are our preferred areas in bonds.

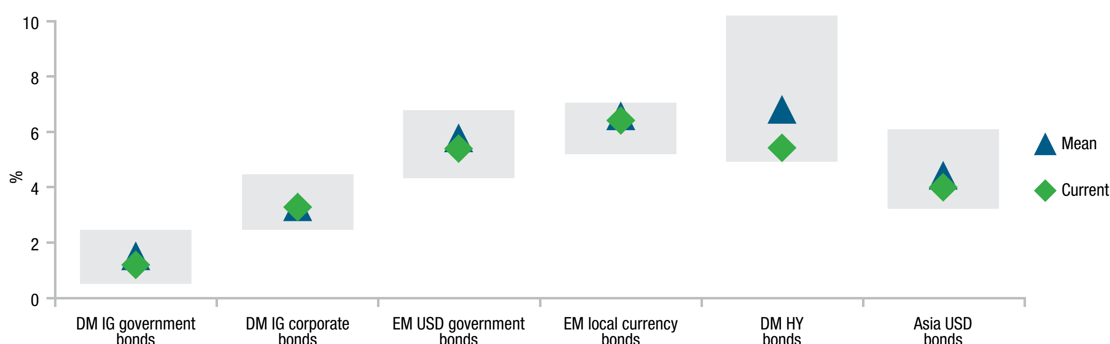
Within DM, we prefer corporate bonds, both Investment Grade (IG) and High Yield (HY), over government bonds. While valuations are elevated, they are supported by strong earnings and low default rates.

We favour a moderate maturity profile of 5-7 years as we believe it offers a balance between yields and interest rate sensitivity. In the US, we expect short-term (2-year) yields to rise faster than long-term (10-year) yields, which could be a headwind for short-maturity bonds and leveraged bond investing.

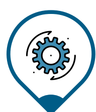
Key chart

Figure 1

EM bonds offer relatively attractive yields



Note: Grey bars represent yield ranges from 2010 onwards. Source: Citigroup, JP Morgan, Barclays, Bloomberg, Standard Chartered



Key drivers

Asset Allocation	View	Rates Policy	Macro Factors	Valuation	FX	Comments	Yield*
EM USD govt	▲	● Not supportive	● Supportive	● Neutral	n/a	Attractive yields, relative value, positive EM sentiment	5.3%
Asian USD	▲	● Not supportive	● Supportive	● Neutral	n/a	High credit quality, defensive allocation. Influenced by China risk sentiment	3.9%
EM Local currency	◆	● Neutral	● Neutral	● Neutral	● Supportive	Attractive yield and positive EM sentiment balanced by high volatility and drawdown risk	6.2%
DM HY corporate	◆	● Not supportive	● Neutral	● Not supportive	● Neutral	Attractive yields on offer, offset by increasingly expensive valuations	5.2%
DM IG corporate	◆	● Not supportive	● Neutral	● Neutral	● Neutral	Likely to outperform DM IG government bonds. Yield premium is relatively low	2.5%**
DM IG govt	▼	● Not supportive	● Not supportive	n/a	● Neutral	Returns challenged by normalising Fed and ECB monetary policy	1.2%**

Source: Citigroup, JP Morgan, Barclays, Bloomberg, Standard Chartered; * As of 5 December 2017, ** As of 30 November 2017
Legend: ▲ Most preferred | ▼ Least preferred | ◆ Core | ● Not supportive | ● Neutral | ● Supportive

Equity
At a glance

Clive McDonnell | Belle Chan | Jill Yip

Key themes

We remain positive on global equity markets in 2018. Low double digit growth in earnings is anticipated in 2018. The US technology sector is expected to continue to perform well and US banks may benefit from rising interest rates.

Asia ex-Japan is a preferred region,. Within Asia ex-Japan, we are most positive on Korea and China, driven by a significant increase in corporate margins.

Euro Area is a preferred region. Close to double digit earnings growth driven by strong domestic consumption is anticipated. We believe Euro area bond yields curve could rise, which has historically been a positive for Euro area banks.

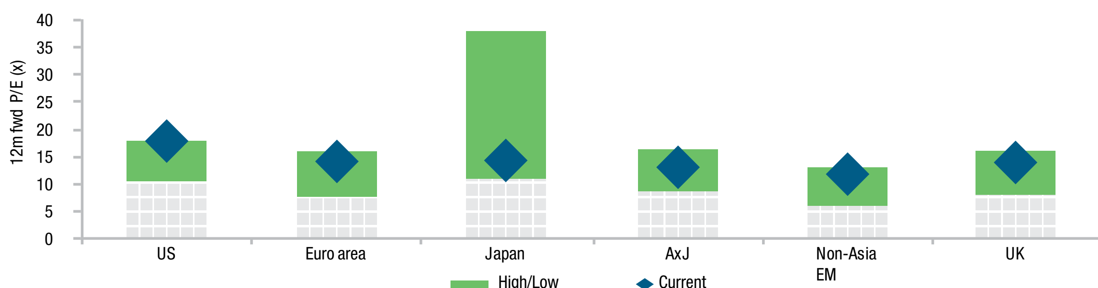
Upside inflation surprises and the impact of reduced monetary policy stimulus are the biggest risks for equity markets in 2018. Our base case is for two to three rate hikes by the Fed in 2018, a pace of tightening which is likely to be conducive of sustainable equity returns. The risk is a faster pace of tightening.

Key chart

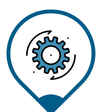
Figure 1

Euro area, Asia ex-Japan and Japan remain relatively attractive from a valuation perspective

Global equity market valuations relative history



Source: Standard Chartered



Key drivers

Asia ex-Japan is our most preferred region in 2018, followed by the Euro area

Equity	View	Valuations	Earnings	Return on Equity	Economic Data	Bond yields	Comments
Asia ex-Japan	▲	● Neutral	● Supportive	● Supportive	● Supportive	● Neutral	Earnings upgrades and ROE recovery combined with attractive valuations
Euro area	▲	● Neutral	● Neutral	● Supportive	● Supportive	● Supportive	Double digit earning growth, ROE improving
Japan	◆	● Supportive	● Neutral	● Supportive	● Neutral	● Neutral	Lead indicators of earnings point towards future improvement
US	◆	● Not supportive	● Supportive	● Neutral	● Neutral	● Neutral	2018 earnings growth will increase modestly. Elevated valuations a drag
EM ex-Asia	◆	● Neutral	● Neutral	● Neutral	● Neutral	● Neutral	Lead indicators of earnings point towards future deterioration
UK	▼	● Neutral	● Not supportive	● Neutral	● Neutral	● Neutral	Earnings under pressure and economic data is weak

Source: Standard Chartered

Legend: ▲ Preferred | ◆ Core holding | ▼ Least preferred | ● Not supportive | ● Neutral | ● Supportive

Note: The colour of each signal refers to its relevance as a driver as opposed to its current positive/neutral/negative status.

FX
at a glance

Tariq Ali, CFA | Manpreet Gill

Key themes

We expect a modest decline in the USD index, mostly as a result of a stronger EUR and marginally offset by a weaker JPY.

GBP and AUD likely to trade in a broad range as risks remain balanced.

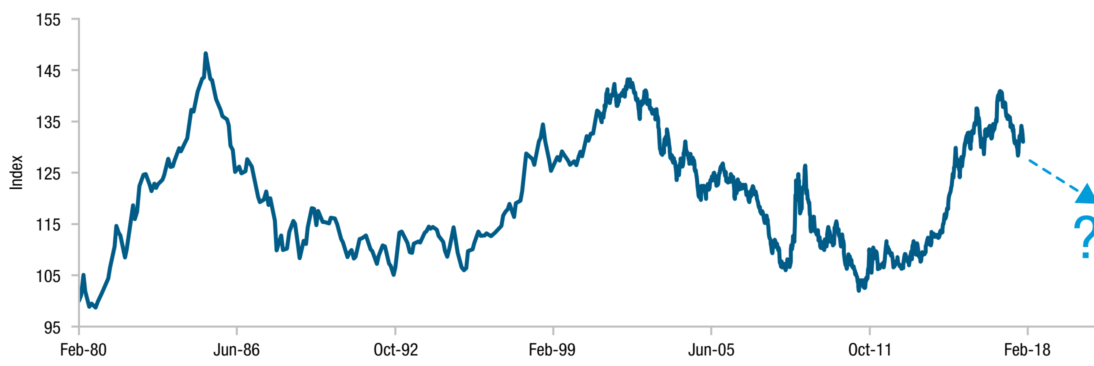
EM currencies likely to strengthen further on a widening EM-DM growth differential, higher commodity prices and a modestly weaker USD.

Key chart

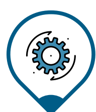
Figure 1

End of a bullish USD super cycle?

USD real effective exchange rate



Source: Bloomberg, Standard Chartered



Key drivers

Currency	Outlook	Real Interest Rate Differentials	Risk Sentiment	Commodity Prices	Broad USD Strength	Comments
USD	▼	🔴	🔴	n/a	n/a	US monetary policy divergence with the rest of the world likely peaking, interest rate differentials to narrow
EUR	▲	🟢	🟢	n/a	n/a	Increasing likelihood of an earlier ECB stimulus withdrawal to support EUR. Political risks contained
JPY	▼	🔴	🔴	n/a	n/a	BoJ likely to maintain easing policy, further widening of interest rate differentials to weaken JPY
GBP	◆	🟡	🟡	n/a	n/a	Further BoE rate hikes remain at risk from Brexit-related uncertainty and its potential impact on growth
AUD	◆	🔴	🟢	🟡	🔴	Supportive risk environment balanced by likely status quo in monetary policy
EM FX	▲	n/a	🟢	🟡	🟢	A weaker USD, moderately higher commodity prices and positive risk sentiment to support EM FX

Source: Bloomberg, Standard Chartered

Legend: ▲ Bullish | ▼ Bearish | ◆ Neutral | 🔴 Not Supportive | 🟡 Neutral | 🟢 Supportive

Commodities
at a glance

Tariq Ali, CFA | Manpreet Gill

Key themes

We expect ***commodity prices to rise modestly in 2018***, amid a moderately positive demand environment, but still elevated supply levels in many cases.

Gold prices to rise modestly, most likely trading in the USD 1250–1350 per ounce range amid a slightly weaker USD, balanced with largely range-bound real yields.

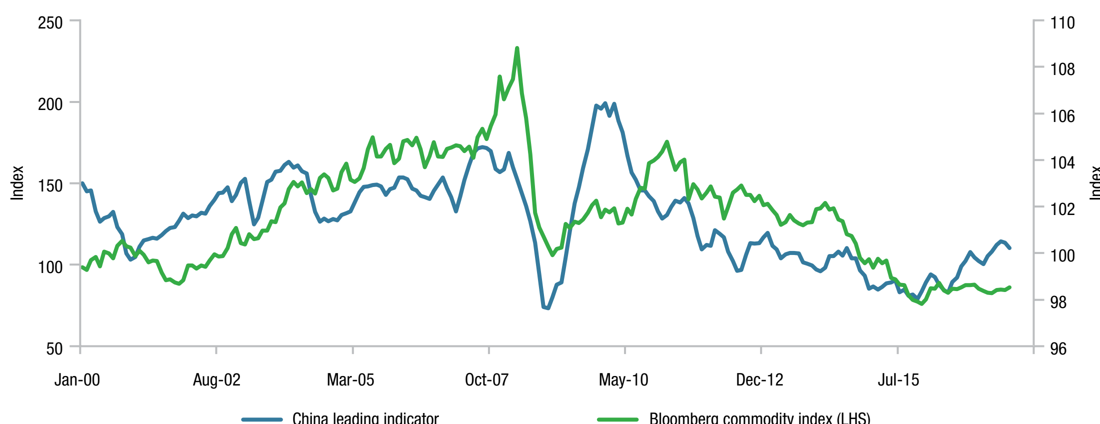
Oil prices likely to remain broadly range-bound, most likely trading in the USD55–65 per barrel range.

Key chart

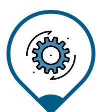
Figure 1

Outlook for China growth still a key driver of commodity prices

China leading indicator and Bloomberg commodity index



Source: Bloomberg, Standard Chartered



Key drivers

Commodity	View	Inventory	Production	Demand	Real Interest Rates	USD	Risk Sentiment	Comments
Oil	◆	🔴	🟡	🟢	n/a	🟢	🟢	OPEC cut backs likely to be offset by US production increase. Inventories remain elevated
Gold	◆	🟡	🔴	🟢	🟡	🟢	🔴	US rate increases expected to be in-line with inflation
Metals	◆	🟡	🟡	🟡	n/a	🟢	🟢	China demand a support; market still over supplied

Source: Bloomberg, Standard Chartered

Legend: ◆ Neutral | 🔴 Not supportive | 🟡 Neutral | 🟢 Supportive

Alternative Strategies
at a glance

Arun Kelshiker, CFA | Trang Nguyen

Key themes

Alternative Strategies are ranked as one of our highest asset class convictions going into 2018 and we expect our Alternatives Allocation to deliver positive returns within a rising interest rate environment.

We continue to advocate a diversified alternatives allocation into Equity Hedge, Relative Value, Event Driven and Global Macro with a tilt towards Equity Hedge.

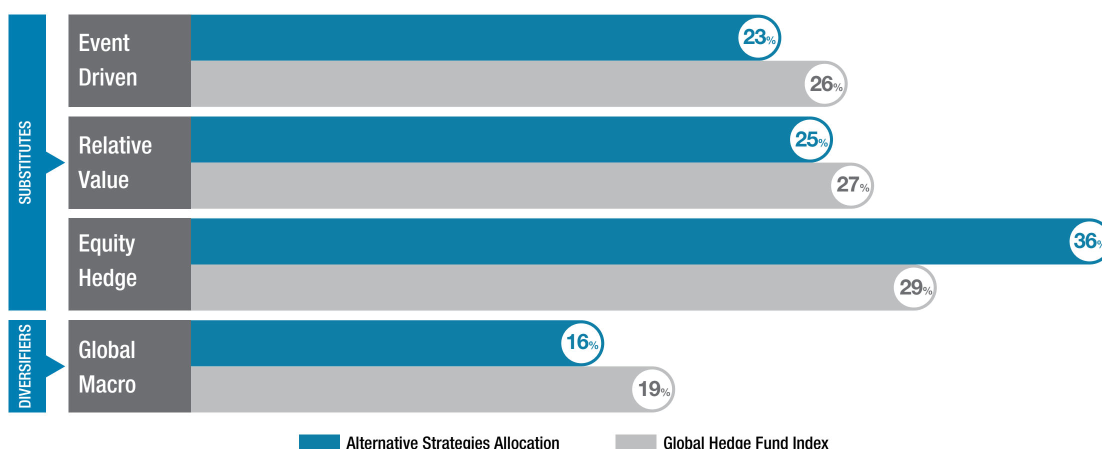
Our Alternatives Allocation delivered +5.3% in line with our call of positive returns since last year's Outlook; amongst sub-strategies, Equity Hedge has been the best performer, up 7.9%.

Key chart

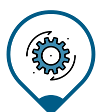
Figure 1

Prefer a diversified Alternatives Allocation with a tilt towards Equity Hedge

Our suggested allocation relative to the HFRX index weights



Source: Bloomberg, Standard Chartered, UBS, Hedge Fund Research Inc., HFRX Hedge Fund Index is a common benchmark used to represent all of the main hedge fund strategies. Composition of benchmark proxied by UBS HFRX Global Hedge Fund Index ETF (end-October 2017).

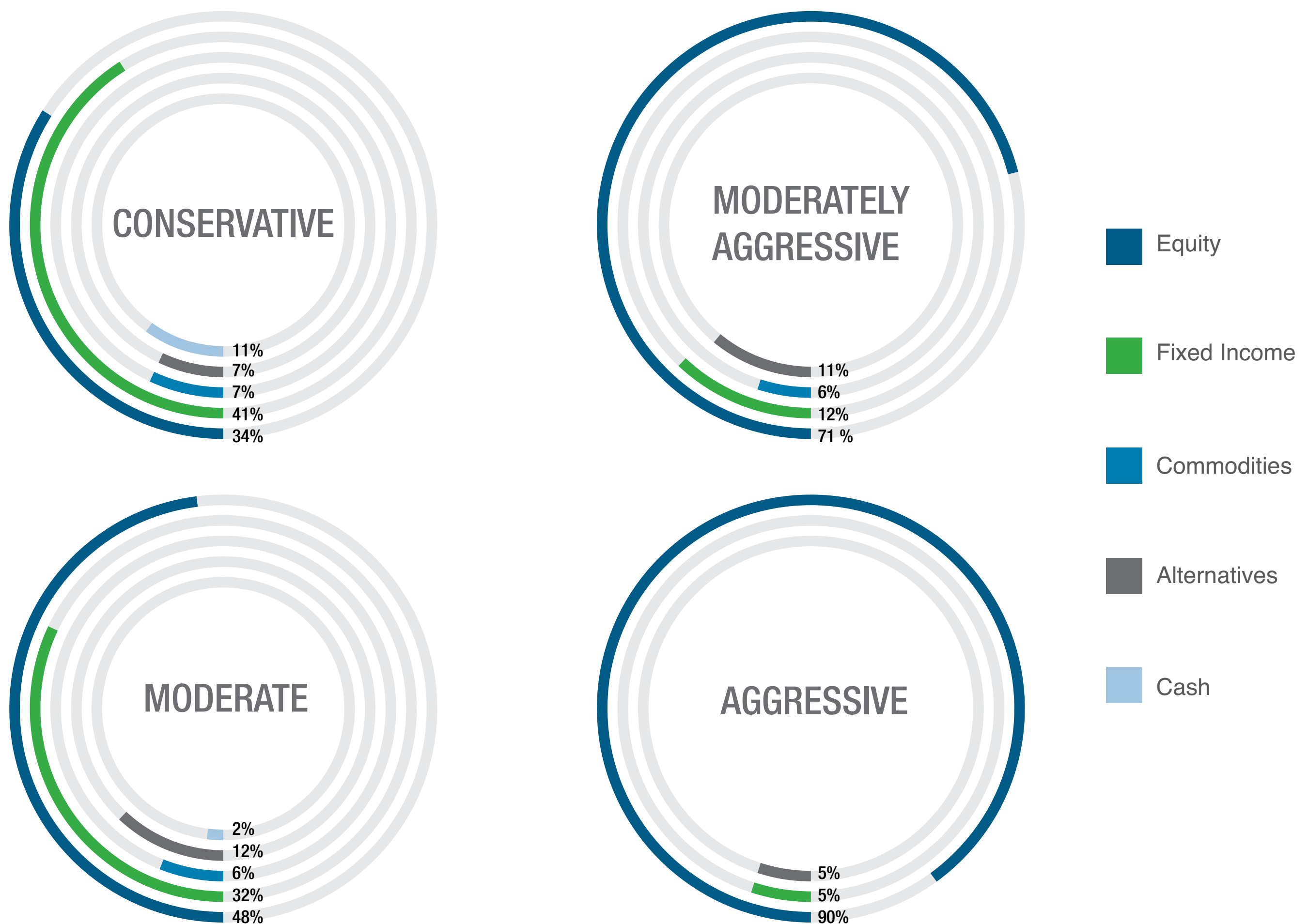


Key drivers

		Description	View	Drivers for strategies to perform	
SUBSTITUTES	**Equity Hedge**	In essence, buying undervalued stocks and selling overvalued stocks	▲	• Positively trending equity markets • Rising equity market dispersion	Supportive Neutral
SUBSTITUTES	**Event Driven**	Taking positions based on an event such as a merger or acquisition	▼	• Positively trending equity markets • Rising mergers and acquisitions • Narrowing credit spreads	Supportive Neutral Neutral
SUBSTITUTES	**Relative Value**	Looking to take advantage of differences in pricing of related financial instruments	▼	• Lower interest rate levels • Cost of funding, narrowing credit spreads	Supportive Neutral
DIVERSIFIERS	**Global Macro**	Looking to exploit themes, trends and asset class relationships (correlations) at a global level, generally with leverage	▼	• Rising volatility and credit spreads • Increasing cross asset dispersion • Clear market trends (up/down)	Not supportive Neutral Supportive

Source: Standard Chartered Global Investment Committee
Legend: ▲ Most preferred | ▼ Least preferred | ◆ Neutral | ● Not supportive | ● Neutral | ● Supportive

Asset allocation **Global**



		View vs. SAA	Conservative	Moderate	Moderately Aggressive	Aggressive
Cash		Underweight	11	2	0	0
Fixed Income		Neutral	41	32	12	5
Equity		Overweight	34	48	71	90
Commodities		Neutral	7	6	6	0
Alternative Strategies		Neutral	7	12	11	5
Asset Class	**Region**					
Cash & Cash Equivalents	USD Cash	Underweight	11	2	0	0
Developed Market (DM) Investment Grade (IG) Bonds	DM IG Sovereign	Underweight	18	14	6	2
	DM IG Corporate	Neutral	14	11	4	3
Developed Market High Yield (HY) Bonds	DM HY	Neutral	4	3	2	0
Emerging Market Bonds	EM Sovereign HC	Overweight	5	4	0	0
	EM Sovereign LC	Neutral	0	0	0	0
	Asia Corporate HC	Overweight	0	0	0	0
Developed Market Equity	North America	Neutral	16	24	36	46
	Europe ex-UK	Overweight	8	10	15	18
	UK	Underweight	0	0	0	0
	Japan	Neutral	3	4	5	7
Emerging Market Equity	Asia ex-Japan	Overweight	7	10	13	16
	Non-Asia EM	Neutral	0	0	2	3
Commodities	Commodities	Neutral	7	6	6	0
Hedge FoF/CTAs	Alternatives	Neutral	7	12	11	5

*FX-hedged exposure. All figures in %. For illustrative purpose only. Please refer to the Important information section at the end of this document for more details.
Source: Standard Chartered

Asset allocation **Asia**

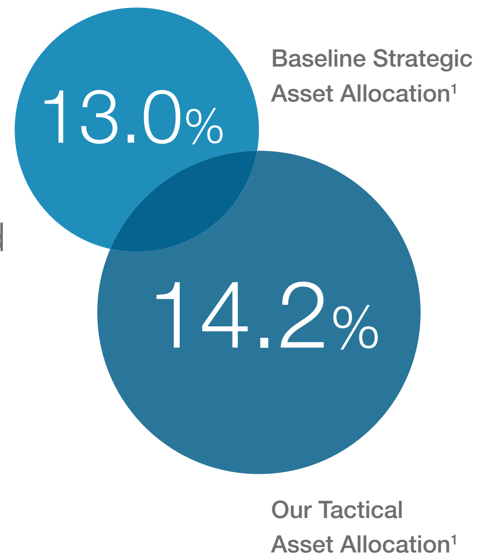
		View vs. SAA	Conservative	Moderate	Moderately Aggressive	Aggressive
Cash		Underweight	9	0	0	0
Fixed Income		Neutral	54	42	18	4
Equity		Overweight	25	43	68	87
Commodities		Neutral	6	5	5	4
Alternative Strategies		Neutral	6	10	9	5
Asset Class	**Region**					
Cash & Cash Equivalents	Cash	Underweight	9	0	0	0
Developed Market (DM) Investment Grade (IG) Bonds	DM IG Sovereign	Underweight	9	7	2	0
	DM IG Corporate	Neutral	8	6	3	0
Developed Market High Yield (HY) Bonds	DM HY	Neutral	3	3	0	0
Emerging Market Bonds	EM Sovereign HC	Overweight	13	10	5	0
	EM Sovereign LC	Neutral	8	6	3	0
	Asia Corporate HC	Overweight	13	10	5	4
Developed Market Equity	North America	Neutral	6	11	17	22
	Europe ex-UK	Overweight	5	10	15	19
	UK	Underweight	0	0	0	0
	Japan	Neutral	2	0	3	3
Emerging Market Equity	Asia ex-Japan	Overweight	10	19	28	36
	Non-Asia EM	Neutral	2	3	5	7
Commodities	Commodities	Neutral	6	5	5	4
Hedge FoF/CTAs	Alternatives	Neutral	6	10	9	5

*FX-hedged exposure. All figures in %. For illustrative purpose only. Please refer to the Important information section at the end of this document for more details.
Source: Standard Chartered

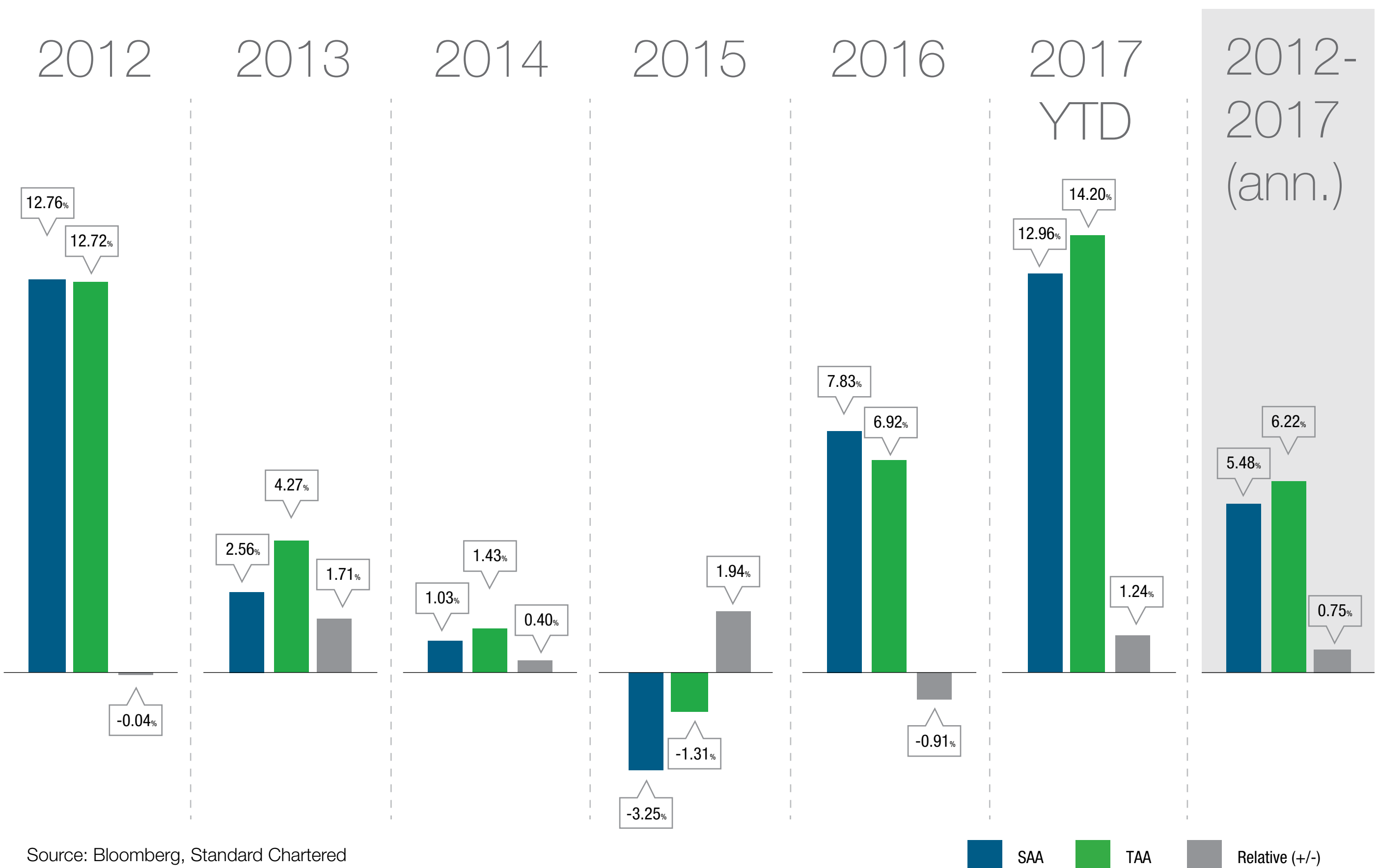
Our 2017 calls in review

Manpreet Gill

Equity and bond markets both delivered strong performance in 2017. This provided significant support for the performance of our views. As a reference point, our moderate risk, *Asia-focused strategic asset allocation* baseline model generated total returns of 13.0%[1] since we released our Outlook 2017. The corresponding *tactical allocation model* – which incorporates our tactical asset class preferences through the year – was up 14.2%[1].



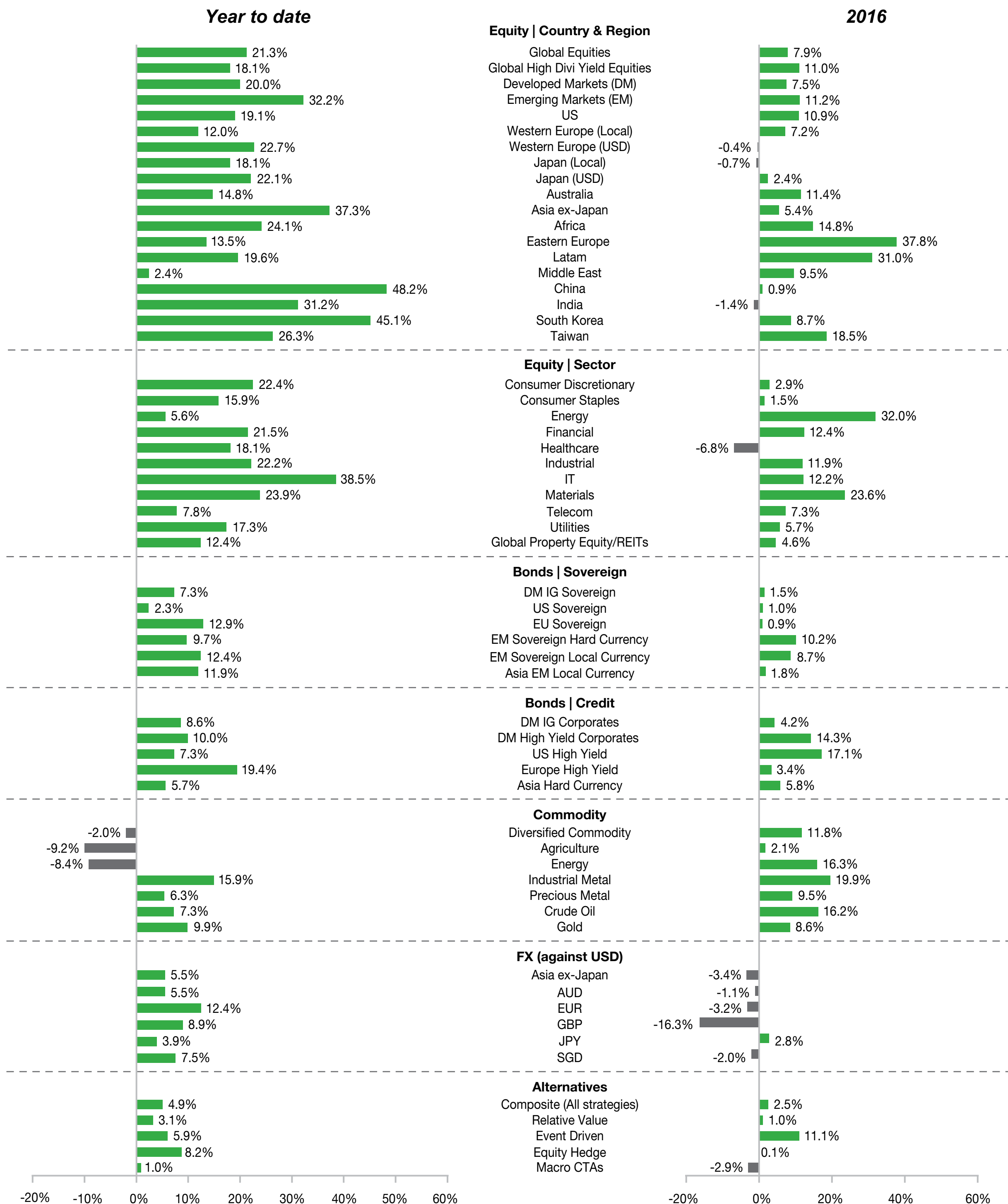
Annual performance of our Tactical Asset Allocation[1] relative to the Strategic Asset Allocation[1] baseline model



Source: Bloomberg, Standard Chartered

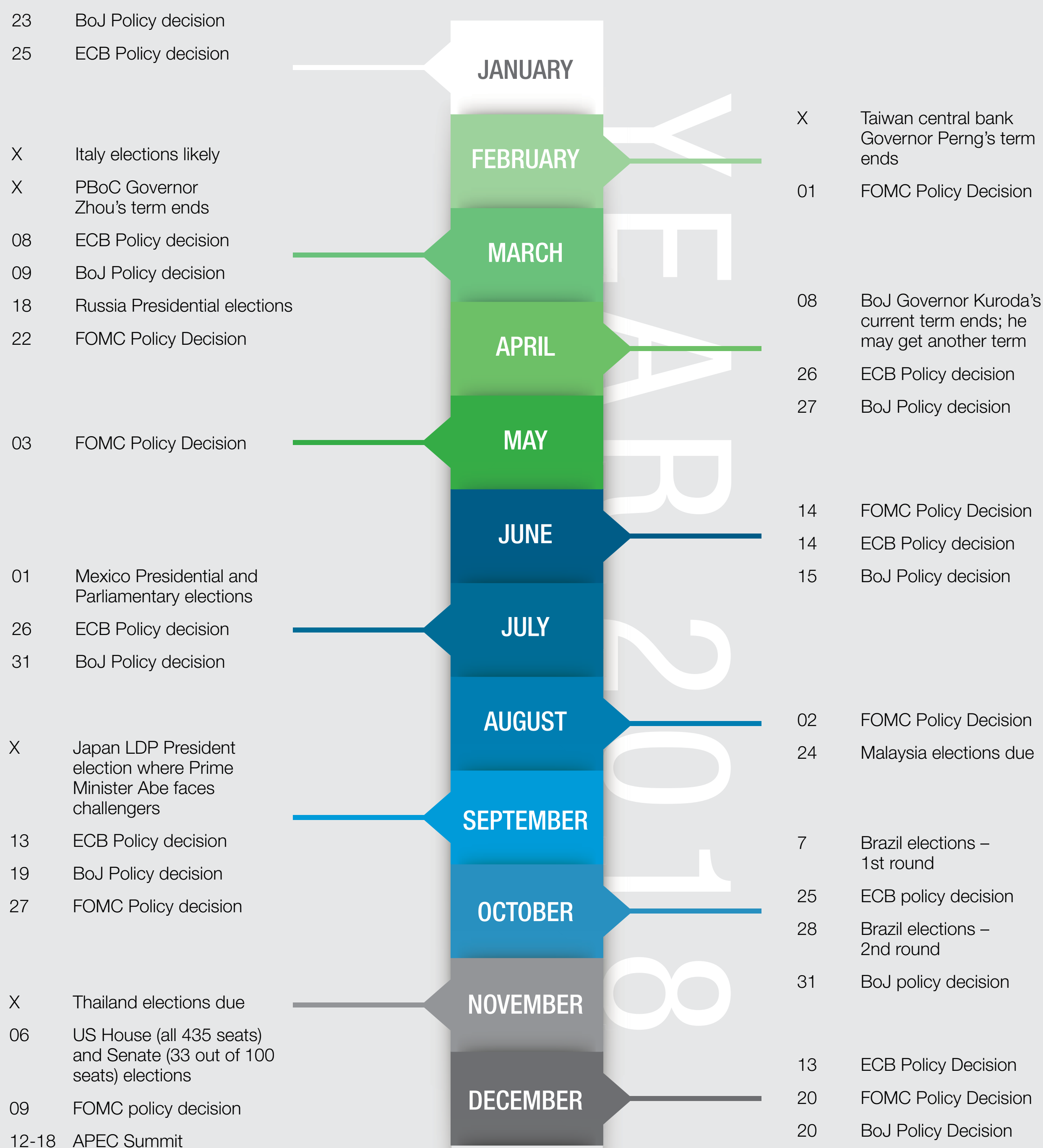
1 SAA is our Asia-focused moderate **strategic** asset allocation. This is made up of 5% USD cash, 45% bonds, 35% equities, 5% commodities and 10% alternatives. TAA is our Asia-focused moderate **tactical** asset allocation which tilts the SAA allocation according to the SCB Global Investment Committee's views. TAA and SAA performance measure from 15 December 2016 to 5 December 2017.

2017 markets summary



Source: MSCI, JP Morgan, Barclays, Citigroup, Dow Jones, HFRX, FTSE, Bloomberg, Standard Chartered
*All performance shown in USD terms, unless otherwise stated.
The column '2017 Year to date' indicates performance from 31 December 2016 to 5 December 2017.
The column '2016' indicates performance from 31 December 2015 to 31 December 2016.

2018 key events



Legend: X – Date not confirmed | ECB – European Central Bank | FOMC – Federal Open Market Committee (US) | BoJ – Bank of Japan

Meet the team

Alexis Calla
Chief Investment Officer

Steve Brice
Chief Investment Strategist

Clive McDonnell
Head
Equity Investment Strategy

Aditya Monappa, CFA
Head
Asset Allocation and Portfolio Solutions

Christian Abuide
Head
Discretionary Portfolio Management

Manpreet Gill
Head
FICC Investment Strategy

Arun Kelshiker, CFA
Senior Investment Strategist
Asset Allocation and Portfolio Solutions

Daniel Lam, CFA
Senior Investment Strategist
Asset Allocation and Portfolio Solutions

Belle Chan
Senior Investment Strategist

Rajat Bhattacharya
Senior Investment Strategist

Ajay Saratchandran
Discretionary Portfolio Manager

Samuel Seah, CFA
Discretionary Portfolio Manager

Audrey Goh, CFA
Senior Investment Strategist
Asset Allocation and Portfolio Solutions

Tariq Ali, CFA
Investment Strategist

Francis Lim
Quantitative Investment Strategist

Jill Yip, CFA
Senior Investment Strategist

Abhilash Narayan
Investment Strategist

Cedric Lam
Investment Strategist

Trang Nguyen
Analyst
Asset Allocation and Portfolio Solutions

Jeff Chen
Analyst
Asset Allocation and Portfolio Solutions

DJ Cheong
Investment Strategist

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Our adaptive process

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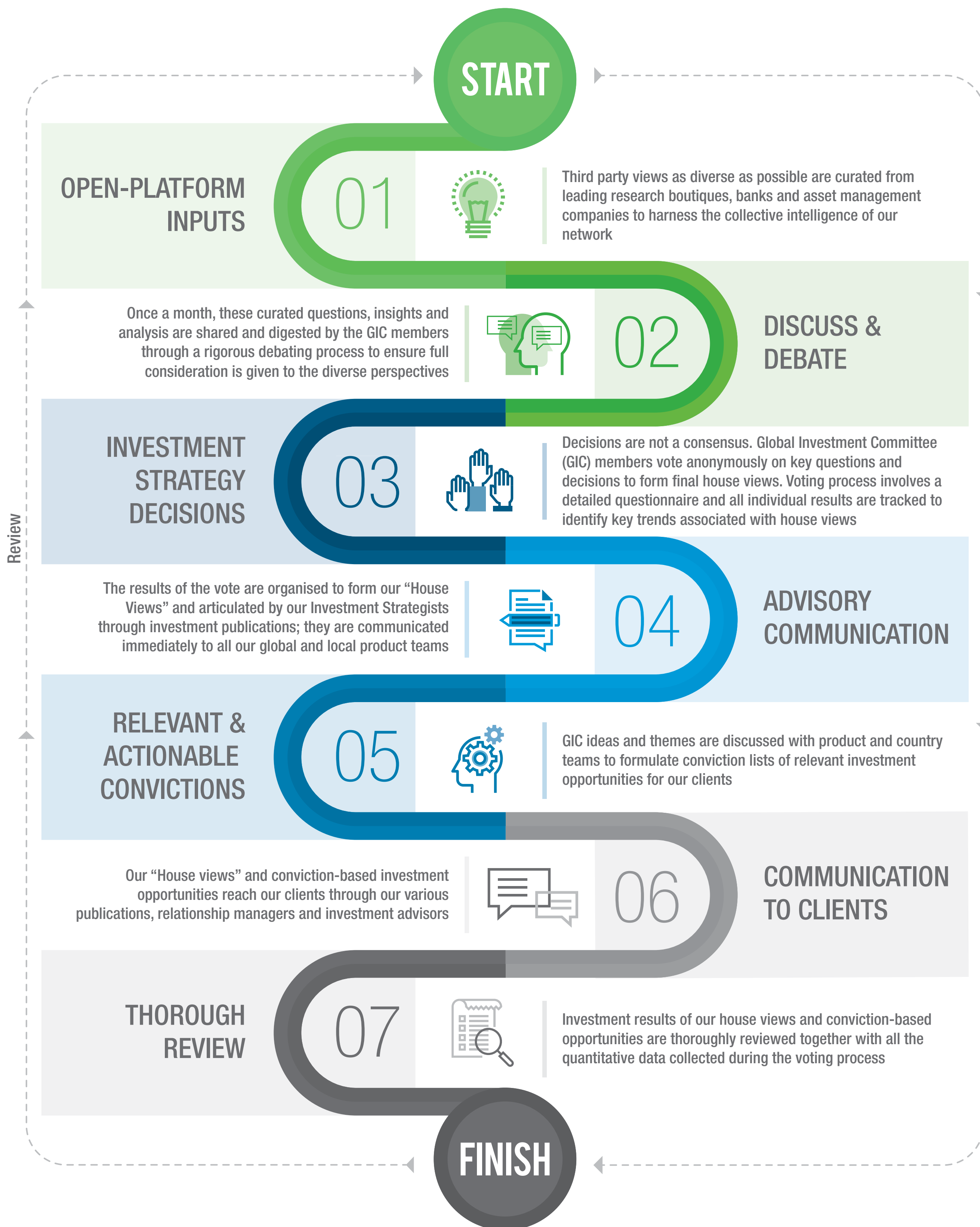

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