OUTLOOK 2015

A YEAR TO W.I.D.E.N. INVESTMENT HORIZONS

The Commentary reflects the views of the Wealth Management Group of Standard Chartered Bank

This is not a research report and has not been produced by a research unit

Contents

*** Core Global Investment Council voting members**

All performance returns in this document are as of 9 December 2014

The team

Alexis Calla*
Global Head
Investment Advisory, Strategy and Managed Investments,
Chair of the Global Investment Council
Alexis.Calla@sc.com

Steve Brice*
Chief Investment Strategist
Steve.Brice@sc.com

Aditya Monappa, CFA*
Head, Asset Allocation and Portfolio Construction
Aditya.Monappa@sc.com

Clive McDonnell*
Head, Equity Investment Strategy
Clive.McDonnell@sc.com

Manpreet Gill*
Head, FICC Investment Strategy
Manpreet.Gill@sc.com

Audrey Goh, CFA
Investment Strategist
Audrey.Goh@sc.com

Victor Teo, CFA
Investment Strategist
Victor.Teo@sc.com

Tariq Ali, CFA
Investment Strategist
Tariq.Ali@sc.com

Editorial

| Alexis Calla |

Welcome to our 2015 Outlook

There is something a bit arbitrary about releasing Outlook publications at the end of a year. There is no reason why major market forces will suddenly change just because we have moved into a new calendar year. However, it does give us a good opportunity to reflect on how our recommendations have performed, then stand back and ask ourselves what really has (and has not changed) when considering the outlook for the next 12 months.

At the end of 2013, we launched our A.G.I.L.E. investment framework, which we thought captured the likely benefits investors could seize by being able to react to market fluctuations in prices and valuations. Our three major investment themes – bullish global equities, a diversified income basket and bearish G3 investment grade bonds – all proved correct.

However, the slight weakness in G3 investment grade bonds hides arguably the biggest thing we missed. The negative returns were driven by the weakness of the euro and the Japanese yen, rather than the expected increase in long term bond yields, which actually fell over the course of 2014. While we expected the euro and yen to weaken, this was not the rationale for our view. The second big move we missed was the collapse in oil prices towards the end of the year. We started the year Overweight energy prices against the backdrop of an accelerating economy, missing how the shale revolution and the financial difficulties amongst many oil producers may raise the incentive to increase supply.

That said, overall, we are generally pleased with the way our key views captured in A.G.I.L.E., our 2014 investment theme, have panned out (see pages 5-8 for more details on how our themes have performed).

Looking forward, there are many similarities with 2014 when looking at the global environment. World growth is expected to accelerate modestly, led by the US. China is expected to slow further while many Emerging Market countries, China included, focus on economic reforms. Globally, inflationary pressures are expected to remain relatively benign.

What has changed? Policy divergence is likely to move to the next stage, with the US shifting from reducing the pace of policy easing to actually hiking interest rates. Meanwhile, Japan remains firmly in easing mode and Europe looks to be on the brink of broad-based quantitative easing as deflationary pressures build.

From an investment perspective, we continue to expect global equities to outperform bonds, although we are less concerned about a spike in US bond yields in 2015. Within equities, we once again start the year with a preference for Developed Market equities given the continued focus on supporting growth. We also believe investors, even those who are not focused on income generation, could benefit from a diversified income portfolio.

However, we believe returns of both global equities and a diversified income allocation are likely to wane gradually as valuations become more challenging. Meanwhile, volatility is likely to pick up in 2015 as the US Federal Reserve embarks on its first policy tightening since 2006. This may manifest itself in a sharp (>10%) drop for global equities at some point in the year, although we believe this will be short-lived and, therefore, something to take advantage of, should it occur. Against this backdrop, we are placing increased emphasis on less traditional sources of return both across and within asset classes.

Finally, we expect the US dollar to build on the strong gains we saw in 2014, albeit at a slower pace, making new highs against the euro and the yen while rallying modestly against commodity producer currencies and many Emerging Market currencies.

This 2015 outlook explores these, and many other, salient themes in greater detail.

Making this relevant to you

Of course, forming a view on the investment outlook is only the first step of the investment process. At Standard Chartered, we aim to ensure all advice provided is relevant to you in terms of your financial objectives, asset class preferences and risk tolerance. Therefore, please reach out to your Relationship Manager or Investment Advisor to help you understand the investment implications of the 2015 Outlook for you.

2015 strategy and introducing W.I.D.E.N.

| Steve Brice |

2015 is the year to W.I.D.E.N. your investment horizons

We are following up on the success of our 2014 A.G.I.L.E. theme with our Outlook 2015: a year to **W.I.D.E.N.** your investment horizons.

We believe the environment of modestly accelerating growth, benign inflation and still stimulatory monetary policies will support returns for both global equities and a diversified allocation to income-generating assets. However, we expect this to come with greater volatility as the US Federal Reserve hikes interest rates for the first time since 2006. It is against this backdrop that we believe investors will benefit if they W.I.D.E.N. their horizons to include less traditional sources of return.

W	**World economy to keep expanding, led by an accelerating US** Remain overweight risky assets, especially Developed Market equities
I	**Inflation to remain low** Maintain an allocation to diversified income
D	**Divergent monetary policies to create multiple investment opportunities** Position yourself for a strong US dollar Keep alert to local opportunities as they arise
E	**End of US zero interest rates to create short-term volatility in many asset classes** Prepare for, and take advantage of, greater volatility
N	**Need for reform key to Emerging Market returns** Retain selective stance for now

W. **World economy to keep expanding, led by an accelerating US.** Global growth is likely to accelerate marginally in 2015. The acceleration in US growth looks the most assured, although monetary policy stimuli are also expected to support a modest acceleration in Europe and Japan. Emerging Markets are likely to witness slower growth, led by a weaker China and lower commodity prices.

I. **Inflation to remain low.** Low inflation and bond yields mean a diversified approach to income investing is valid for income-focused and total return-focused investors alike. We advocate a significant Overweight position to high dividend-yielding equities as well as an increased allocation to less traditional, non-core income investments such as covered calls, convertible bonds, REITS and preferred equity. Within bonds, we focus on two local currency markets in Asia (China and India) to help boost yields from more traditional USD fixed income instruments.

D. **Divergent monetary policies to create investment opportunities.** The US Federal Reserve is expected to raise interest rates for the first time since 2006, while the Bank of Japan, European Central Bank and People's Bank of China continue to ease policy settings. This is expected to keep the US dollar strong, while creating local investment opportunities.

E. **End of US zero interest rates to create short-term volatility in many asset classes.** While we expect global equities to outperform bonds, the start of the US interest rate-hiking cycle risks an increase in short-term volatility, probably as we head towards the summer months. Investors should be mentally prepared for this (ie, be comfortable with the level of risk inherent in their portfolios). Higher volatility will also provide opportunities to raise equity allocations and to sell equity volatility through the writing of puts or covered calls.

N. **Need for reform key to Emerging Market returns.** The implications of reform are not always clear-cut and we believe that investors should remain selective. The key is how quickly growth benefits are likely to be felt. For India, the market response has been dramatic as the country appears to be heading towards a virtuous circle of accelerating growth and falling inflation. In China, reform is seen as a trade-off between long-term and short-term growth, with the latter losing out. However, it is possible 2015 proves to be the year where markets reward China as hard landing risks recede. Watch also Brazil's and Indonesia's new leadership to see if they can deliver on reform promises.

Key investment themes as we head into 2015	
Global Equities	• Globally diversified equity
Diversified Income	• High dividend equities • Bonds • Non-core income
Alternatives	• Equity long/short strategy • Systematic and discretionary macro strategies

Source: Standard Chartered Bank

2014 in review

| Steve Brice |

Figure 1: Our performance report card for 2014

	Absolute	Relative
Key Investment themes		
Equities still preferred (over bonds)	✓	✓
Diversified income allocation to generate positive returns	✓	n/a
Underweight bonds	n/a	✓
Bearish G3 investment grade bonds	✓	n/a
Equities		
Preference for US equities	✓	✓
Preference for EU equities	✓	x
Buy on the dip	✓	n/a
Cyclicals preferred over expensive defensives	n/a	x
Bonds		
Stay Underweight Fixed Income	n/a	✓
Maintain Developed Market High Yield Overweight	n/a	✓
Spread between 30-year and 10-year bonds likely to narrow	✓	n/a
Favour Developed Markets over Emerging Markets	n/a	x
Commodities		
Neutral Commodities - further downside likely limited	x	n/a
Underweight gold - prices still not in support zone	✓	✓
Overweight energy - range-bound outcome likely	x	x
FX		
USD strength likely to anchor FX market	✓	n/a
Monetary policy divergence likely to be a key driver	✓	✓
In Asia, CNY likely to be largely flat	x	✓
In Asia, INR to bear the brunt of tapering-related outflows	✓	x
In Asia, IDR to bear the brunt of tapering-related outflows	✓	x
Bearish AUD – Risk/reward remains unattractive	✓	n/a

Source: Bloomberg, Standard Chartered; Legend: √ - Right; x – Miss; n/a – not applicable

(*) The views here refer to the 'Key themes' for each asset class in the 'Outlook 2014: A year to be A.G.I.L.E.' report published in December 2013

Figure 2: Our A.G.I.L.E. framework for 2014

A	Advanced economies key to global recovery
G	Growth and earnings key to equity returns
I	Income to remain in high demand
L	Liquidity to remain ample, despite Fed tapering
E	Emerging economies embarking on reform

Source: Standard Chartered

2014 in review (cont'd)

2014 review – Performance of key themes

Economy

We entered 2014 with the overarching theme – '**A Time to Deliver DM Growth, EM Reform**'. The year played out largely as expected, with Developed Markets (DM) leading the acceleration in global growth to an estimated 2.4% (from 2.2% in 2013) and Emerging Markets (EM) initiating reforms.

- **The US, after a brief weather-enforced hiccup in Q1, emerged as the main driver of the global economy.** Growth averaged more than 4% over Q2-Q3, helped by reduced fiscal tightening and strong consumer spending on the back of an improving job market.
- **Europe returned to growth as expected,** but the region (ex-UK) disappointed from the middle of the year, as business confidence was hit by growing geopolitical uncertainties surrounding Ukraine and Russia.
- **Japan succumbed to a sales tax hike,** playing out our core risk – plunging the economy into a recession. As a result, the Bank of Japan (BoJ) accelerated its asset purchases and Prime Minister Shinzo Abe postponed a second tax rise to support economic activity.
- **Reform was the dominant theme in EM**. China stepped up economic reforms, accepting, in the process, a slightly slower-than-targeted growth of around 7.4%. India and Indonesia voted in reformist governments, while Brazil re-elected President Rousseff, who promised a wide range of reforms.

Our expectations of a **low-inflation environment and Europe flirting with deflation came true** – with a twist: the disinflationary trend continued through to the year-end.

Falling inflation expectations have allowed policy makers in DM to maintain easy money policies. The Euro area and Japan aggressively eased policy, while the US Federal Reserve pledged to keep policy accommodative even after ending its asset purchases (after starting to taper purchases in Q1, as we had forecast).

EMs with current account deficits, such as India, Indonesia, Brazil and South Africa, have either raised benchmark interest rates or held rates high, partly to support their currencies in the face of a stronger USD.

Thus, our **A.G.I.L.E.** theme of **A**dvanced economies leading global **G**rowth and driving equity returns worked well. **I**ncome assets were in demand and **L**iquidity was ample, while **E**Ms embarked on reform.

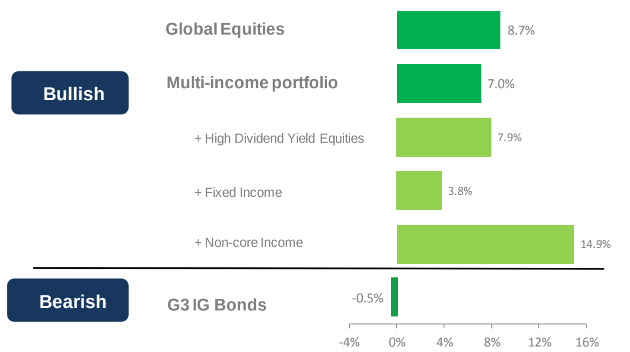
2014 A.G.I.L.E. theme performance

Our three key themes from the A.G.I.L.E. investment framework – global equities, a diversified income basket and an expectation that G3 investment grade bonds would deliver negative returns – have been proven right (see Outlook 2014: A Year To Be A.G.I.L.E. – 16 December 2013).

- **Global equities** – Posted another strong performance in 2014, up 8.7% since we published the 2014 Outlook on 16 December 2013.
- **Diversified income basket** – We highlighted three areas within this theme (high dividend-paying equities, traditional fixed income securities and non-core income assets such as convertible bonds, REITs and preferred equities). Since 16 December 2013, the basket returned 7.0%, after taking into account our mid-year rebalancing. The rebalancing, which reduced DM high yield (HY) in favour of a defensive exposure to leveraged loans and CNY bonds, proved positive. CNY bonds (+3.5%) and leveraged loans (-2.7%) outperformed DM HY (-4.6%) after we rebalanced.
- **Underweight G3 Investment Grade (IG) bonds** – These have not only under-performed other bond sub-asset classes, but have also generated negative returns (-0.5%). However, these losses were entirely due to EUR and JPY weakness rather than the expected rise in bond yields.

Figure 3: Our 2014 themes have worked well

*Performance of the key themes from the 2014 Outlook**



Source: Bloomberg, Standard Chartered
**Returns from 16 December 2013 to 09 December 2014*
**Income basket is as described in 'Outlook 2014: A Year to be A.G.I.L.E.', Figure 53, and was then revised in the August issue of Global Market Outlook, entitled `Volatility likely to remain low for a while'.*

Performance of asset class views

Equities outperform

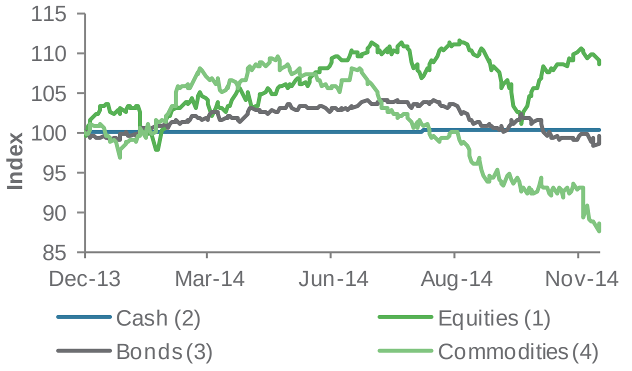
The 2014 Outlook reiterated our preference for global equities over fixed income assets, a view validated by equities significantly outperforming bonds.

Our other conviction for the USD to gain strength proved correct on the back of monetary policy divergence between the Fed and other central banks.

Our Underweight stance on bonds turned out to be fortuitous, but only because of sharp depreciations in the EUR and JPY against the USD, rather than due to rising yields as we had forecast. In addition, the sharp fall in crude oil in the latter part of the year surprised us, though our bearish view on gold was justified.

Figure 4: Global equities outperformed other assets

Level 1 asset class performance (100 = 16 Dec 2013)



Source: JPMorgan, Citigroup, MSCI, Bloomberg, Standard Chartered. Indices are JPMorgan 3m Cash, Citigroup WBIG Sovereigns, MSCI AC World TR and Bloomberg Commodities

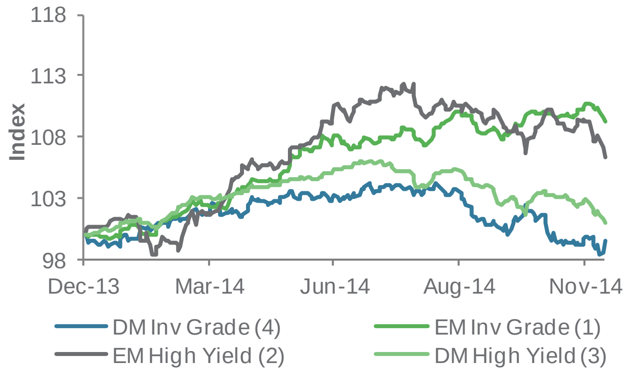
Bonds

Within bonds, **we started the year broadly favouring DM bonds over EM debt, and HY securities over IG assets**, premised on the view that US yields would start rising in the latter part of the year. **However, this did not materialise as US 10-year Treasury yields fell below 2.5% in Q4.** Following up on our A.G.I.L.E. theme, we upgraded EM IG to Neutral in February and EM HY to Overweight in June, but we were not aggressive enough. **EM IG and EM HY outperformed DM bonds significantly during the year.**

Our 'barbell' approach to the US yield curve proved correct, with the spread between the US 30-year and 10-year bonds narrowing by almost 40bps. The spread decline was primarily due to a sharper drop in 30-year yields, where we saw more value at the start of the year.

Figure 5: EM bonds outperformed DM debt

Level 2 bonds performance (100 = 16 Dec 2013)



Source: JPMorgan, Citigroup, Barclays, Bloomberg, Standard Chartered. Indices are Citigroup WBIG USD, JPMorgan EMBI Global IG, JPMorgan EMBI Global HY and Barclays Global HY TR

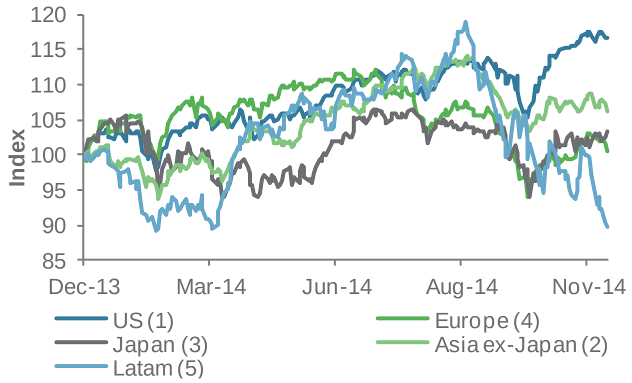
Equities

Our Overweight equities stance (originated in August 2012) was once again vindicated. We started the year Overweight US and Europe stocks. US equities outperformed significantly, **but Europe's outperformance in late 2013 failed to carry over into 2014, largely due to EUR weakness.** Despite this, Europe generated positive returns in USD terms. We started the year Underweight Asia ex-Japan, but upgraded to Neutral in April. The change was rewarding – the region gained 4.5% since the upgrade.

Our call to stay A.G.I.L.E. and buy on dips was very fruitful. Global equity markets suffered three significant declines over January-February (peak-to-trough 6%), July-August (4%) and September-October (9%), but recovered strongly each time. However, cyclicals belied our expectations, underperforming defensives, particularly in H2.

Figure 6: US stocks outperformed global equities

Equities performance in USD (100 = 16 Dec 2013)



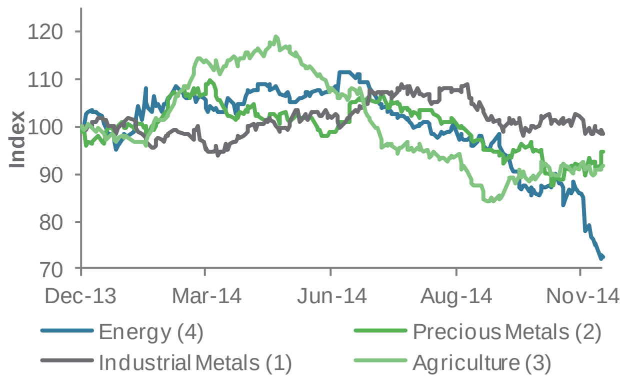
Source: MSCI, Bloomberg, Standard Chartered Indices are MSCI US TR, MSCI Europe TR USD, MSCI Japan TR USD, MSCI Asia ex-Japan TR USD and MSCI Latam TR USD

2014 in review (cont'd)

Commodities

We entered 2014 with a Neutral stance on commodities, expecting limited downside, but seeing no upside catalysts either. However, commodities underperformed other assets. **We were bearish gold, which worked well, but our Overweight view on energy hurt us** after oil plunged in H2.

Figure 7: Energy unexpectedly underperformed
Level 2 commodity performance (100 = 16 Dec 2013)

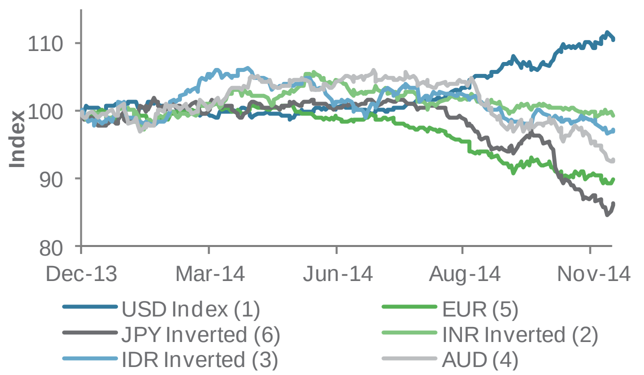


Source: Bloomberg, Standard Chartered. Indices are Bloomberg Energy, Precious Metals, Industrial Metals and Agriculture

Foreign Exchange

We were bullish on the USD and bearish on the EUR and JPY at the start of the year, based on monetary policy divergence. **The USD emerged as the clear outperformer** while the JPY and EUR underperformed in the wake of the BoJ and the ECB easing policy. **Our bearish view on the AUD also proved rewarding,** as the Reserve Bank of Australia (RBA) maintained record low rates.

Figure 8: USD emerged as the clear outperformer
Level 2 currency performance (100 = 16 Dec 2013)



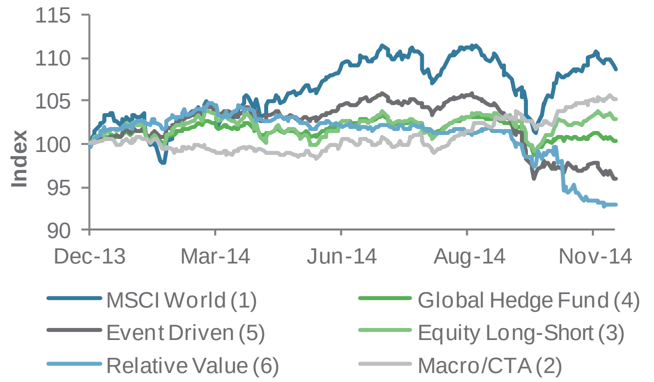
Source: Bloomberg, Standard Chartered. Indices are DXY, EUR/USD, JPY/USD, INR/USD, IDR/USD and AUD/USD

We were less successful with our forecast for INR and IDR under-performance in Asia amidst Fed tapering, as the two currencies outperformed most Asian peers.

Alternatives

Our Overweight stance on alternative strategies worked well. The asset class outperformed global bonds. Within the alternatives asset class, **our Overweight view on equity long/short strategies proved correct,** generating around 3% returns.

Figure 9: Macro/CTAs outperformed alternatives
Level 2 alternative strategies performance (100 = 16 Dec 2013)



Source: Bloomberg, Standard Chartered
Indices are MSCI AC World, HFRX Global Hedge Fund, HFRX Event Driven, HFRX Equity Hedge, HFRX Relative Value and HFRX Macro/CTA

Conclusion

Our strong conviction that equities would outperform was rewarded once again.

Our income theme also generated strong returns, with or without the rebalancing we suggested in August.

We were also successful with our bullish USD and bearish EUR, JPY and AUD views on the back of growing policy divergence.

However, European equities disappointed, as did crude oil, and G3 investment grade bonds fell. Meanwhile, the INR and IDR proved more resilient to Fed tapering than we expected.

Macro overview – A year of policy divergence

| Steve Brice |

US to lead global growth

Developed Markets to accelerate

- US likely to achieve 'full employment' in 2015 as growth accelerates to around 3%
- Europe likely to see faster growth for a second year
- Japan to recover from recession as Abenomics gets a fresh lease of life following Abe's election victory

Inflation to remain benign

- Inflation to remain benign due to excess spare capacity and lower oil prices
- Low inflation to allow policymakers to keep rates low despite Fed rate hike
- Japan's inflation is likely to move closer to the central bank's 2% inflation target, while China's inflation is likely to remain subdued due to excess capacities

Liquidity to stay ample

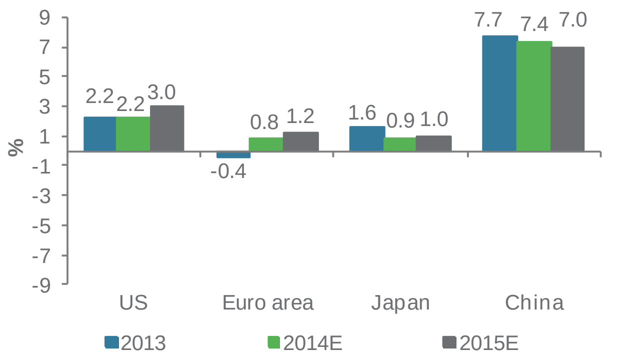
- Strong job market and wage growth to trigger first rate hike by the US Federal Reserve since 2006
- European Central Bank likely to embark on its first-ever government bond purchases to ward off deflationary pressures
- Japan to continue with aggressive asset purchases

Emerging Markets to continue reforms

- China's growth rate could slow to 7% as policymakers pursue reforms
- India, Indonesia and Brazil to pursue reforms under new governments
- Russia, already hit by sanctions, likely to be impacted further by the oil price drop

Figure 10: DMs to accelerate, China to slow further

GDP growth for 2013 and consensus forecasts for 2014-2015



Source: Bloomberg, Standard Chartered Bank

US to drive global growth, again

Global growth is likely to accelerate in 2015 for the third straight year, led by the US. Consensus forecasts point to a 2.9% expansion next year, up from 2.4% this year. We believe the risk is to the upside – the recent drop in oil prices, if sustained, could lift global growth significantly.

US consumers leading the expansion

2014 saw Developed Market (DM) economies accelerate, while Emerging Markets (EM) focused on reforms. By the end of the year, the US economy emerged as the clear winner as the fastest pace of job creation since 1999 triggered a consumption-led expansion. The year 2015 should see more of the same – with a slight twist: the sharp decline in oil prices should be another tailwind for consumer-driven economies worldwide. Every USD 20/bbl decline in crude oil, if sustained, is estimated to boost global growth by 0.3ppt per year.

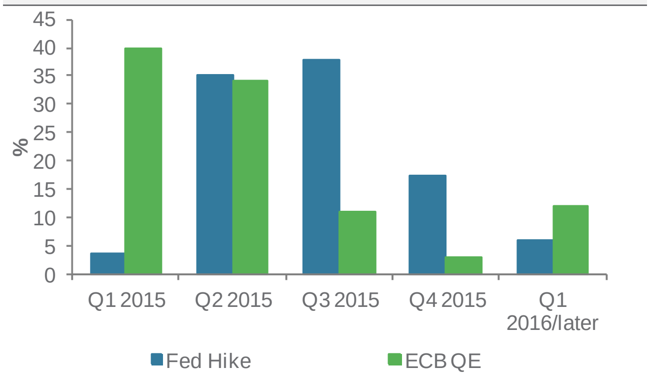
The US is likely to be a major beneficiary of lower oil prices, given the high sensitivity of the economy to energy prices. Europe and Asia too should benefit, although the pass-through effect of inexpensive oil to consumers is lower compared with the US. The combination of a consumption-led growth and low oil prices (and hence, benign inflation) should allow policymakers to sustain low interest rates.

Fed likely to hike rates

Even so, **the Fed is likely to stand out** as it responds to a tightening job market by embarking on its first rate hike since the financial crisis sometime in the middle of 2015.

Figure 11: Fed expected to hike rates in Q2-Q3 15, ECB to start government bond purchases in H1 15

Our probabilistic expectations of a Fed rate hike and broad-based quantitative easing by the ECB (%)



Source: Bloomberg, Standard Chartered Bank

In contrast, we expect the ECB to start buying government bonds by Q2 in the face of falling growth and inflation expectations. In Japan, Abenomics should get a fresh lease of life following a strong mandate from voters, **allowing the Bank of Japan (BoJ) to maintain its aggressive monetary easing and the government to push through structural reforms.**

Emerging Markets to pursue reforms

Among EMs, **China's policymakers are likely to side with reforms,** accepting a slower pace of growth as they re-orient the economy towards consumption. That said, they are likely to intervene from time to time to manage the pace of deceleration and ensure that the job market remains stable. As a result, we expect growth to slow marginally to 7% in 2015, from 7.4% in 2014.

We believe **India is entering a virtuous cycle of falling inflation and rising growth**. Lower oil prices should help lower inflation expectations, enabling the central bank to cut rates. Meanwhile, a reform-driven government has boosted business and investor confidence, which should help jump-start much-needed infrastructure investment.

New governments in Indonesia and Brazil too have committed themselves to reform, although there is uncertainty over their ability to deliver.

Geopolitics is a key risk

Geopolitical uncertainty is a key risk facing this constructive global outlook – from a flaring up of the Ukraine crisis, a broadening of the conflict in Iraq/Syria to a conflagration in North-east Asia.

The ascendancy of far-right and far-left parties in the upcoming elections across Europe holds significant downside risks to Europe's outlook and could lead to bouts of market volatility.

Figure 12: US growth to pick-up in 2015, inflation to stay subdued

US GDP growth and inflation consensus estimates (%, y/y)

	GDP	CPI	Unemployment
2013	2.2	1.5	7.4
2014E	2.2	1.7	6.2
2015E	3.0	1.7	5.6
2016E	2.9	2.2	5.2

Source: Bloomberg, Standard Chartered Bank

Scenarios

- Marginal change in expectations from December 2013
- Probability of 'strong growth' unchanged at 15%
- 'Accelerating growth' down to 50% (from 55%)
- 'Muddle through' little changed at 25%
- Recession risk slightly up to 10% (from 5%)

We have four main macro scenarios for 2015, which are similar to our 2014 scenarios. The probabilities for the scenarios have changed marginally. This implies expectations of 'more of the same', with a slight bias towards slower growth in China and some other EMs, where the focus is on economic reforms.

Strong growth: 15% probability (vs. 15% in December 2013)

In this scenario, US leads a strong pick-up in global growth led by consumption and investment; Europe and Japan accelerate as a result of aggressive monetary easing; and EMs such as China, India and Brazil start to benefit from reform efforts.

Accelerating growth: 50% probability *(vs. 55%)*

US still leads global expansion, but Europe and Japan see moderate pick-up in growth while EMs take more time to reap the benefits of reform, with China slowing to c. 7% growth.

Muddle through: 25% probability *(vs. 25%)*

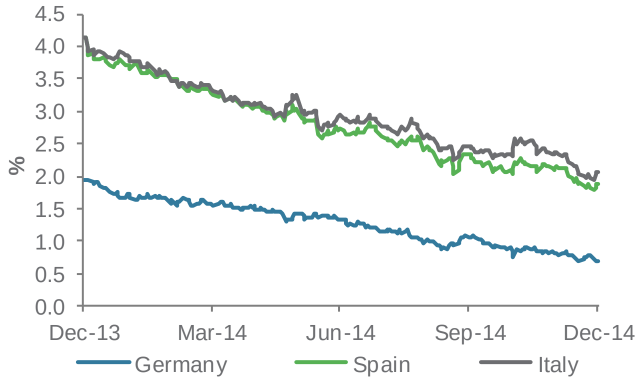
Global expansion continues at the same pace as in 2014, led by a consumer-driven expansion in the US. However, business investment remain subdued both in the US and Europe due to excess spare capacity and disinflationary pressures. EMs continue to muddle through with a slow pace of reforms.

Global recession: 10% probability *(vs. 5%)*

Geopolitical risks arising from Ukraine or Iraq could threaten world growth under this scenario. Also, a mistimed Fed rate hike or the ECB's failure to embark on government bond purchases could hurt consumer and business confidence.

Figure 13: Investors may be under-estimating Euro area risks

10-year government bond yields of Germany, Spain and Italy (%)



Source: Bloomberg, Standard Chartered Bank

Macro overview – A year of policy divergence (cont'd)

US

- The consumer-led US economy, bolstered by a strong job market, to lead DM growth
- Growth likely to accelerate closer to 3%, with a further bump up likely from low oil prices
- The Fed is expected to raise rates during the summer, as the unemployment rate drops below 5.5%
- Inflation should remain subdued thanks to the fall in oil prices and a strong USD, allowing the Fed to moderate and stagger the pace of rate increases

The US economy – An outperformer

The US economy is set to outperform its DM peers, with the pace of growth rising to around 3%. That would be the fastest pace of expansion in the US since 2005. Consumption, which accounts for 70% of the economy, has once again emerged as a key driver of US growth.

Strong job market driving consumption

2014 saw the fastest pace of job creation since 1999. A robust job market has helped boost disposable income. After years of paying down debt since the recession, consumers, emboldened by the improving labour market, are once again taking on debt to buy big-ticket items, such as cars and home appliances.

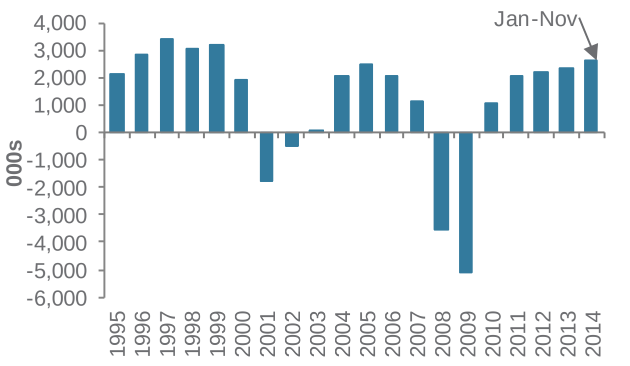
Consumer confidence is at a 7-year high and auto sales are at their highest since 2006. Even home sales, which fell sharply during the crisis and have languished since, have shown signs of picking up since Q2, helped by declining mortgage rates and greater job certainty.

The recent collapse in oil prices is likely to significantly boost demand within the US economy as it helps consumers save on gasoline prices. Its economic impact should be similar to that of a tax cut, with US households on average getting an estimated annual USD 1,300 windfall. Add to this the wealth effect from gains in the stock market and the consumption-led expansion looks set to be self-sustaining.

Rising demand is encouraging manufacturers to invest and expand existing capacity. Factory capacity utilisation has risen to 79%, its highest level since the onset of the financial crisis in 2008. A survey of purchasing managers in the manufacturing sector showed confidence is close to its highest since 2011. This is likely to support a continued recovery in capital spending, outside of the energy sector.

Figure 14: The US economy has created more jobs in 2014 than in any year since the late 1990s

Total yearly net non-farm payrolls ('000s)



Source: Bloomberg, Standard Chartered Bank

'Full employment'

We believe, at the current pace of hiring, **the US unemployment rate will drop to 5.5% sometime in H1 15.** The Fed considers a 5.0-5.5% unemployment rate as 'full employment', below which wage pressures should start to accelerate. Although wage gains have been subdued so far, this could be the trigger for salary hikes. To manage the inflationary impact of rising wages, the Fed is likely to embark on its first rate hike since the financial crisis sometime in the summer.

However, **we expect the pace of rate hikes to occur at a measured pace** as headline inflation is likely to remain benign thanks to global spare capacity, low energy prices and a strong USD. **We envisage the Fed's benchmark rate at 0.75%-1.25% by the end of 2015.** Such a moderate pace of rate increases should prevent a sharp rise in long-term yields, as well as in mortgage rates, which are tied to them.

Timing the rate hike

The main risk to this scenario is market turbulence if the Fed's timing or pace of hikes surprise investors. The markets have historically under-estimated the pace of Fed rate hikes. Currently, interest rate markets are expecting a slower pace of rate increases than the Fed's policymakers. However, we do not expect major surprises, given the Fed's increasingly data-dependent policy-making stance and more pro-active communication.

Macro overview – A year of policy divergence (cont'd)

Europe and Japan

- Europe and Japan are both likely to accelerate marginally in 2015 on stronger monetary stimuli and more relaxed fiscal policies
- We expect a moderate rise in inflation in the Euro area as the ECB embarks on government bond purchases
- Japan is likely to achieve close to 2% inflation as the impact of the BoJ stimulus, a weaker JPY and structural reforms kick in following a strong political mandate for Abenomics
- Deflation is the biggest risk facing both economies

Figure 15: Euro area to accelerate for the second year, Japan likely to recover from sales tax hike

Euro area and Japan GDP growth and inflation consensus forecasts (%, y/y)

	Euro area		Japan	
	GDP	CPI	GDP	CPI
2013	-0.4	1.3	1.6	0.4
2014E	0.8	0.5	0.9	2.8
2015E	1.2	0.9	1.0	1.7
2016E	1.5	1.4	1.2	1.7

Source: Bloomberg, Standard Chartered Bank

ECB and BoJ to fight against disinflation

Europe and Japan are likely to once again contribute to an acceleration in the global economy in 2015, although by a lesser extent than in this year. Consensus estimates suggest Europe growing at 1.6%, up from 1.3% in 2014, and Japan mildly accelerating to 1% from 0.9%.

In Europe, the UK is likely to outperform the rest of the region with an estimated 2.6% expansion based on consensus forecasts. The much larger Euro area is expected to accelerate to 1.2% growth from 0.8% in 2014 (and a 0.4% contraction in 2013), aided by record low borrowing costs, targeted boost for long-term lending and large-scale asset purchases by the ECB. We expect more relaxed fiscal policies, especially in economies running fiscal surpluses, to provide tailwinds to growth, especially in H2. Southern Europe is likely to benefit from lower oil prices.

In Japan, Abenomics is expected to get a fresh lease of life after a strong mandate for Prime Minister Abe in the upcoming elections. This should bolster his 'Three Arrows' strategy of monetary stimulus, a fiscal spending boost and structural reforms. The postponement of the second sales tax hike to 2017 should provide consumers some relief as they recover from the impact of the first round of tax hikes, which plunged the economy into a recession in 2014.

We expect Abe to start pushing through tough reform measures to open up labour markets, restart nuclear power plants and open up agriculture to more international competition. The latter should unlock the doors to multilateral trade agreements such as the Trans-Pacific Partnership that Japan is negotiating with the US and other Asia-Pacific countries. The JPY's sharp depreciation since July should also boost trade, benefitting Japan's exporters.

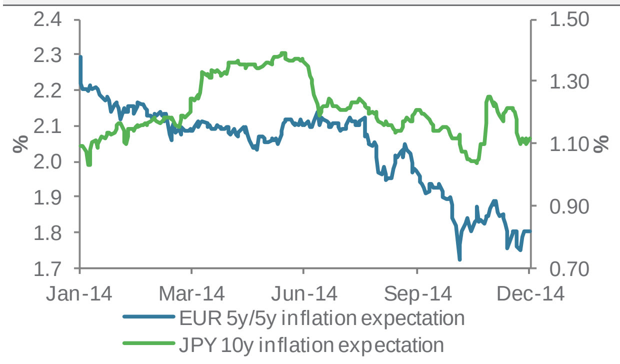
Central banks are likely to be the driving force both in Europe and Japan. Although the Bank of England (BoE) is likely to raise rates, the ECB is likely to stimulate further, possibly by venturing into government bond purchases by the end of Q2. Euro area unemployment remains uncomfortably high at 11.6% and the economy is bordering on deflation, while inflation expectations continue to decline.

As a result, we believe ECB President Mario Draghi will win over doubters of quantitative easing (QE), after the recent downgrade to the ECB's growth and inflation forecasts. We expect the ECB to broaden its asset purchase programme to include government bonds as its sets out to expand its balance sheet back to 2012 levels.

In Japan, Governor Haruhiko Kuroda has the clearest mandate for unrestricted asset purchases among the world's policymakers. We believe his latest bid to expand purchases beyond government bonds to include equities, corporate bonds and REITs, and the government pension fund's plan to double the share of local stocks in its portfolio, will be stimulative for the economy. We see inflation edging closer to the BoJ's 2% target in 2015.

Figure 16: Inflation expectations continue to fall

Euro area and Japan (RHS) 10-year inflation expectations (%)



Source: Bloomberg, Standard Chartered Bank

Macro overview – A year of policy divergence (cont'd)

China, India and other Emerging Markets

- China's growth is likely to slow to around 7% as policymakers maintain focus on reforms, while moderating the pace of deceleration
- India may to benefit from a virtuous cycle of accelerating growth and falling inflation. Falling inflation should allow the central bank to cut rates
- Brazil to focus on structural reforms, curbing its fiscal deficit and reducing inflation as it seeks to return to growth and retain its investment grade credit rating
- Russia's economy appears the weakest among the major EMs as the drop in oil prices worsens the impact from tightening Western sanctions

Figure 17: Asia likely to slow marginally, reforms in Brazil and Mexico may boost Latin American growth

Asia, Latin America and Russia GDP growth and inflation consensus estimates (%)

	Asia		LatAm		Russia	
	GDP	CPI	GDP	CPI	GDP	CPI
2013	6.3	3.7	2.6	6.8	1.3	6.8
2014E	6.3	2.4	1.0	9.5	0.5	7.6
2015E	6.1	3.2	1.9	9.7	-0.1	7.6
2016E	6.0	3.1	2.9	9.4	1.0	5.8

Source: Bloomberg, Standard Chartered Bank

A mixed bag

EMs are likely to follow divergent paths as they navigate different points in the economic cycle. Policymakers in China and India are easing policy to counter slowing growth and declining inflation, while Brazil and Russia have raised rates to fight inflation, even as they struggle to revive growth.

China to pursue reforms

China expected to maintain focus on reforming its economy towards consumption, accepting a slower growth rate. We expect growth to decelerate to around 7%, from an estimated 7.4% rate in 2014. Faster growth in the US and Europe should help sustain exports while policymakers maintain a tight leash on domestic credit to sectors facing surplus capacities.

We expect more targeted easing at priority sectors of the economy such as transportation, healthcare and rural housing in the less-developed western and central regions. The authorities are also likely to intervene with broad interest rate cuts, but only with the aim of managing the pace of deceleration of the economy, rather than reflating it.

Inflation, currently at a four-year low, is likely to remain benign as sectors of the economy work through surplus capacity. This should provide policymakers ample scope to provide temporary stimulus if growth and job creation decline sharply.

India in a virtuous cycle

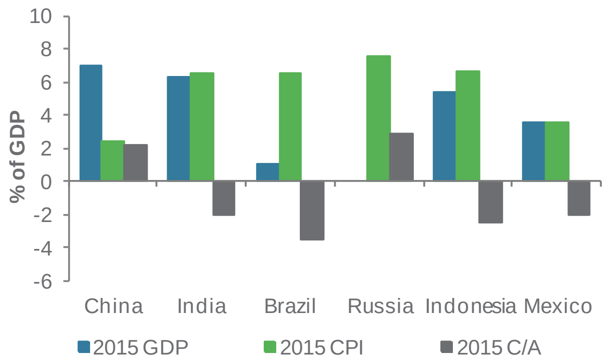
India appears to be at a similar point in the economic cycle as China. Growth has slowed and inflation has declined. However, there are key differences. **We expect growth to accelerate from H1 2015** as reforms remove bureaucratic bottlenecks and jumpstart infrastructure investments.

India has one of the strongest stories within EM, with Prime Minister Narendra Modi's business-friendly approach to policymaking. The government's focus on building infrastructure (it plans to build 100 'smart' cities over the next 10 years) and attract foreign investment are positive for business confidence. Foreign direct investment surged to USD 21.5bn over April-September, the highest since 2009.

We expect India's hawkish central bank to shift its stance to supporting growth in H1 2015 as inflation continues its downtrend. Lower oil prices are a tailwind for India, which imports most of its oil and has just linked domestic fuel prices to the international markets. Lower energy costs should put further downward pressure on inflation. **However, we believe any rate cuts are likely to be measured,** as RBI Governor Raghuram Rajan aims to anchor inflation expectations before easing policy. The central bank aims to cap inflation below 6% by 2016 and implement inflation-targeting as a formal policy objective.

Figure 18: China, India to remain EM growth leaders

Consensus GDP growth, inflation and current account balance estimates for 2015 in key EMs (% of GDP)



Source: Bloomberg, Standard Chartered Bank

Elsewhere in Asia, **South Korea and Taiwan are beneficiaries of a pick-up in US growth** as well as the decline in oil prices. However, their exporters face competitive challenges from the sharp decline in the JPY. Indonesia's new reformist government under President Joko Widodo has raised hopes of implementing much-needed reforms to attract foreign investors, but faces challenges from an opposition-dominated parliament.

Brazil defending investment grade

In Latin America, **Mexico should be a major beneficiary of the strengthening US economy,** although its much-heralded energy sector reforms are under pressure due to lower oil prices**. However, Brazil faces mounting challenges,** with inflation running above 6% and the economy still in a recession. The appointment of Joaquim Levy as Brazil's Finance Minister is positive for investor confidence, as is the recent tightening of policy by the central bank. Levy, a former Treasury Secretary, has a record of cutting deficits, which should stand the country in good stead as Brazil defends its investment-grade rating.

Russia is a key risk

Russia is the weakest link among the major EMs and a cause for concern. The drop in oil prices has worsened the impact of tightening Western sanctions, pushing Russia's currency to a new low. Although central bank reserves are ample, investors should keep a close watch for further signs of stress.

Conclusion

The world economy is a picture of divergence. The US is set to drive an acceleration in global growth for a second year, which should help its economy achieve 'full employment'. As a result, we expect the Fed to raise rates by the summer of 2015. In contrast, the ECB and BoJ are set to ease policies as they battle disinflationary pressures and revive growth.

The sharp drop in oil prices should be a booster for consumer-driven economies across DMs and in Asia, although oil producers will be affected. However, investors should be watchful of geopolitical risks as well as increased volatility as the Fed prepares to raise interest rates for the first time since 2006.

Key risks

- **Geopolitical uncertainties** – the Ukraine/Russia conflict, unrest in Iraq and Syria and a possible conflagration in Northeast Asia are key risks. The US-led push to counter the spread of ISIS in Iraq has had early successes. In Asia, there are signs of rapprochement amongst Japan, China and South Korea. We believe pragmatism will ultimately prevail as focus turns to economic development, given the close business links between the three neighbours. However, this does not preclude tensions flaring up periodically.
- **Upcoming European elections**, starting with Greek Presidential elections in December 2014 and the UK polls in May, could cause uncertainty if far-right or far-left parties or those opposed to the European Union win significant mandates. However, the commitment of mainstream parties to consolidate the Euro project is a key positive, countering the influence of fringe parties.
- **Deflation risks in Europe** are likely to rise if the ECB fails to get support for broadening its asset purchases programme to include government bonds. We expect the ECB to win over German opposition to an expansion of its balance sheet as growth and inflation expectations are downgraded.
- **The oil price drop could hurt major producers** such as Russia, Venezuela, Iran, Nigeria and Ghana. However, Gulf Cooperation Council producers are likely to be shielded by their sizeable reserves.
- **A premature Fed rate hike** could cause an economic downturn. We expect the Fed to err on the side of caution. Lessons from 2013's 'taper tantrum' have honed the Fed's communication.
- **A hard-landing in China** remains a risk, although this seems more remote than a year ago given the reforms implemented in 2014, the government's substantial reserves and its willingness to provide support to soften the current economic slowdown. Low inflation should provide policymakers ample scope to stimulate the economy, if needed.
- **Low borrowing costs worldwide could accentuate excessive risk taking**, leading to asset bubbles. However, global trade imbalances have significantly receded in recent years while banks and consumers have deleveraged.

Standard Chartered Priority

Bonds – Fed in the driving seat

| Manpreet Gill |

Key themes

- **Stay Underweight Bonds, chiefly given the likely limited returns on G3 government bonds** as the Fed raises rates. However, we do not expect a lasting spike in yields in 2015
- **Overweight Emerging Market Investment Grade sovereign bonds.** Relative value, lower commodity price risks and rising credit quality are supportive factors for the asset class
- **Overweight corporate credit in both Developed Markets and Asia,** but returns are likely to be limited to the yield. We hold an equal preference between IG and HY credit in these regions
- **USD yield curve likely to flatten further.** We expect the spread between 30-year and 10-year and 10-year and 2-year Treasury yields to narrow further
- **Favour CNY, CNH and INR bonds in Asian local currency markets.** These offer better returns for the risk relative to the wider local currency universe

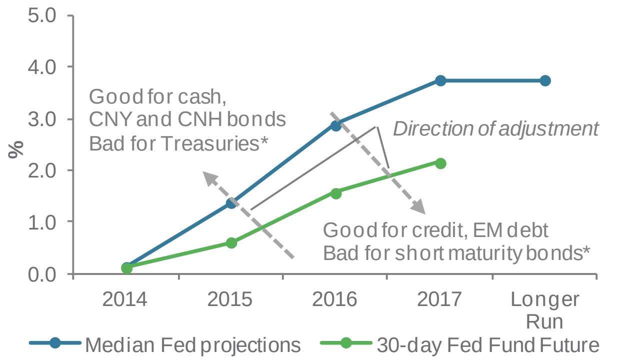
Tightening Fed, flatter yield curves

Our view that the US Federal Reserve is likely to begin raising policy rates in 2015 is a key component of our outlook. The Fed and the market are clearly at odds. The gap between the Fed's policy committee members' current rate projections (the 'dot plot') and what the market is currently pricing for the likely path of the Fed's policy rates suggests that some adjustment is inevitable from one end or the other. We suspect it will be a bit of both, leading us to the conclusion that while rates are likely to be only gradually higher by year-end, the path may be bumpy if markets have to bring forward their rate-hike expectations.

This yield outlook remains key to performance across the bond universe, including corporate bonds. This was the key lesson from 2014 when total returns were highly correlated with G3 government bond returns across almost all major bond asset classes.

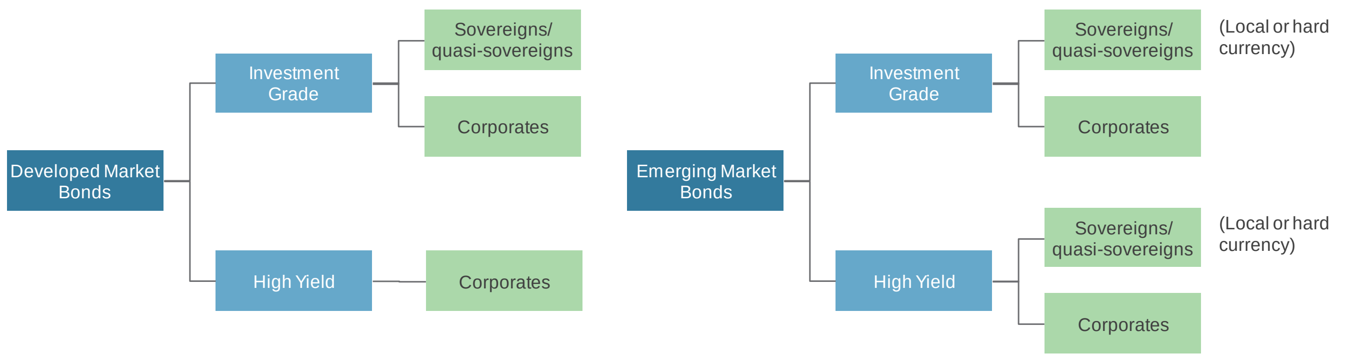
Figure 20: The gap between the Fed's central view and the market's rate expectations remains wide

Average of FOMC members' rate expectations vs. current market expectations based on Fed fund futures



**Asset class expectations in relative terms*
Source: Bloomberg, Standard Chartered Bank

Figure 19: A map of the way we look at the Global bond universe



Source: Standard Chartered Bank

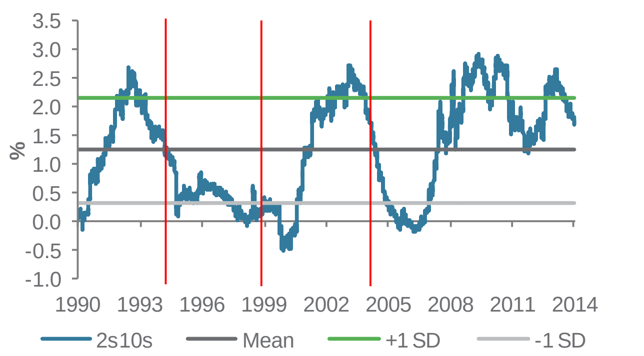
Bonds – Fed in the driving seat (cont'd)

How real is the risk of a spike in US Treasury yields? We believe the probability is small, but not small enough to ignore. History suggests the market tends to consistently underestimate the pace of the Fed's hiking cycle, posing the risk that this time too, the market could do most of the adjusting to close the gap, as illustrated in Figure 21. This supports our view that the adjustment process could be bumpy even if the full-year rise in yields is relatively gradual.

A key learning from history is that the yield curve flattens around the Fed's rate-hiking cycle. This has occurred across most Fed rate-hiking cycles over the past half-century across almost all components of the US yield curve. We do not see any reason for the current cycle to be any different. We expect the 30-10 and 10-2 yield curves (ie, the spread between the 30-year and 10-year or the 10-year and 2-year US Treasury yields) to narrow. The former is a position we held successfully over 2014 and are comfortable leaving on into 2015 as well.

Figure 21: USD yield curve likely to flatten further

Spread between 10-year and 2-year US Treasury yields. (red lines mark the start of the Fed rate-hiking cycle)



Source: Bloomberg, Standard Chartered Bank

Together with low absolute yields, this implies a relatively tough environment for US Treasuries. While the magnitude may vary for different bond maturities, US Treasury yields are likely to end 2015 higher than where they are today. Two or three rounds of interest rate hikes (ie, a total of 50-75bps) and smaller rises in 10-year yields mean the yield on offer today may approximately equal the capital loss from falling bond prices (as yields rise). Low yields, however, mean there is very little room for error. The main risk to our view is continued demand for the higher yield on offer in the US relative to Japan and Euro area bond markets. This was one key factor dragging US yields lower in 2014, though the fact that European yields are now not far from zero means this risk is likely to be more limited in 2015.

European and Japanese government bonds may offer greater stability, but yields are extremely low. Government bonds in these regions are akin to US Treasuries during the Fed's quantitative easing (QE) efforts: they are expensive on most traditional measures, but current central bank policies mean they are likely to remain so in the foreseeable future. Again, the low absolute yield indicates there is very little room for error. Our moderately bearish view on the EUR and JPY signifies that risks to total returns in USD terms are tilted to the downside.

We start 2015 with a neutral maturity profile stance (ie, centred around 5-year maturity) for USD bond portfolios. Our choice of being in the middle is led by a preference to avoid the extremes.

Excessive interest rate risk (through very long-maturity bonds) may not make sense in a year of rising Fed policy rates. A risk of even a short-lived overshoot on 10-year yields could hurt portfolio returns significantly.

Figure 22: Falling yields over time mean a progressively smaller buffer against price volatility in IG bonds

Yield and price volatility of the Barclays Capital US Aggregate Index

Source: Morningstar, Standard Chartered Bank

Conversely, the low yields on very short bonds are unlikely to provide a buffer against higher Fed rates, as this is where the bulk of the rate adjustment is likely to take place. The historical experience during the beginning of previous Fed rate-hiking cycles is particularly instructive – 2-year Treasury yields quickly rose to price in multiple Fed rate hikes over a fairly short period of time even though actual rate hikes took much longer to come through. Under such a scenario, the yield on a 2-year Treasury is likely to be quickly overwhelmed by falling bond prices (as yields rise).

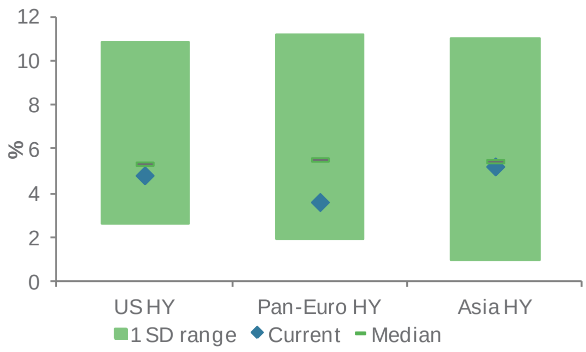
Overweight corporate bonds

We prefer corporate credit over sovereigns in Developed Market (DM), but our return expectations are limited to the yield on offer. An environment of very low rates (in absolute terms) and support from QE outside the US are likely to maintain support for corporate bonds. A historical analysis of past Fed cycles highlights that the 3-6 months leading up to a Fed rate hike can be a bit bumpy, but returns stabilise thereafter. Over the full year, we believe corporate credit spreads are likely to be incrementally tighter and largely offset gradually higher government bond yields. Total returns, however, are likely to be limited to the yield on offer.

In DM, we hold an equal preference for IG and HY credit. HY credit spreads, in particular, have widened over 100bps since mid-2014, though they remain below historical medians. The higher yield does protect against rising US yields to a significant extent. However, we believe incrementally softer credit quality justifies gradually increasing exposure to higher quality issuers. Low investment-grade (ie, BBB-rated) bonds offer a reasonable trade-off between quality and yield, in our opinion.

Figure 23: Credit spreads are tight relative to history, but some room for further tightening exists

HY credit spreads by region, Barclays Capital Indices



Source: Barclays Capital, Bloomberg, Standard Chartered Bank

In HY, we believe capping total portfolio exposure to neutral levels (just under 10% of a moderate risk-class allocation) is the best way to manage the trade-off between still-interesting yields and gradually rising risks (valuations, worsening corporate credit quality). We are also mindful of the risk to US HY from lower oil prices – the energy sector accounts for c.15% of the market and is likely to be vulnerable to any further price weakness.

We hold a similar view on Asia ex-Japan USD corporate bonds. Asian corporate credit still offers a yield premium over global corporate credit. However, the premium on offer is no more than the average. Furthermore, Asian corporate credit remains dominated by Chinese issuers, which continue to face stress from a slowing domestic economy. We prefer corporate credit over government bonds in Asia as well, though we do not see any reasons to unduly favour it over DM corporate credit.

Leveraged loans may continue to deliver solid, if unexciting, returns. A historical analysis suggests this is an asset class that offers reasonably stable returns and little sensitivity to changes in interest rates. As these are generally secured loans, recovery rates also tend to be very high (c.80% on an average) in the event of default. However, we recognise the underlying corporates are predominantly HY-rated companies, so we would contain any allocation to senior secured loans within an overall cap to HY.

Subordinated debt and contingent convertibles [1] (CoCos) offer selective opportunities. Going down the capital structure, high-quality names still selectively offer interesting opportunities to obtain higher yields without dramatically compromising credit quality. However, we would continue to focus on keeping duration within our preferred region by focusing on bonds with a high probability of being called. We see an opportunity in the dispersion of valuations of the relatively new asset class CoCos, suggesting there is room to outperform significantly by being selective.

Opportunities in Emerging Markets

EM sovereign bond spreads are approximately at long-term median levels, an unusual occurrence in today's markets. As Figure 24 below illustrates, USD bonds issued by EM sovereigns and quasi-sovereigns appear to offer relative value. In today's environment of tight spreads across the board, we believe EM bonds may offer a pocket of value.

[1] See Explanatory note on page 48

Bonds – Fed in the driving seat (cont'd)

Figure 24: EM sovereign bond spreads offer reasonable room for spread tightening

EMBI composite spreads

Source: JPMorgan, Bloomberg, Standard Chartered Bank

We enter 2015 by upgrading EM IG sovereign bonds to Overweight. Key factors supporting this asset class include (a) comfortable relative valuations, (b) reduced commodity price risk relative to HY-rated sovereigns, and (c) improving aggregate credit quality. We recognise relatively high interest rate sensitivity is a key risk for EM bonds. However, this is likely to be partly mitigated by tightening spreads.

Reduce EM HY sovereigns to Neutral on rising credit risk. A stream of bad news from Venezuela has meant an outright default event cannot be ruled out though the country's bond prices have arguably priced in a large part of this risk. Ukraine is also a risk. Here, we do not believe an outright default is likely, but the country's bond prices remain elevated, leaving little room for a negative surprise. A potential downgrade of the Russian sovereign to HY would also raise risks for the asset class. Finally, this group of sovereigns remains more exposed to commodity price weakness, which entails further downside risks if commodity prices extend their fall.

Asian local currency bonds – Favour CNY and INR bonds

Broad Asia local currency universe likely at risk from a stronger USD. The yield on offer remains reasonably attractive at c.4%, and most central banks' policy outlooks are supportive for local bond markets. However, we believe the risk of currency weakness has risen, given our views of continued USD strength and the likelihood of further JPY weakness. We prefer to close any broad exposure to the Asia local currency bond universe and, instead, focus on individual markets where we see value.

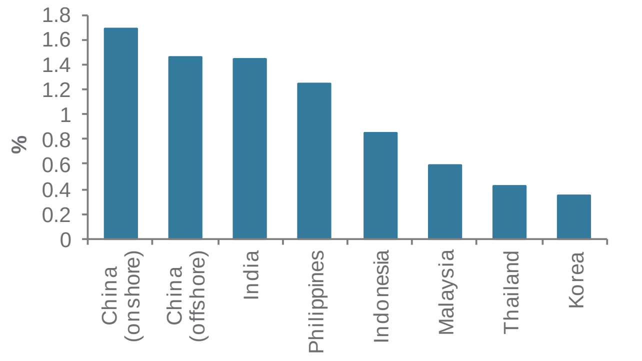
CNY and INR bonds stand out as our top picks within the Asian local currency bond universe.

- Bonds in both local markets offer attractive yields (approximately 4-8%) for IG credit quality.
- China has already begun cutting rates, while India is likely to do so in 2015. Lower market yields mean capital gains on bonds are likely to contribute to total returns over and above the yield on offer.
- We expect both currencies to offer stability. China's CNY is likely to at least remain stable (and possibly appreciate), while India's INR faces significantly improved external fundamentals, which should limit any depreciation.

KRW and TWD bonds may be most at risk. This risk stems primarily from the possibility of further currency weakness amid continued USD strength and JPY weakness.

Figure 25: CNY, CNH and INR bonds offer the best yields once you account for currency volatility

2-year government bond yields divided by 1-year historical FX volatility



Source: Bloomberg, Standard Chartered Bank

Key risks

Key upside risks for bonds include greater-than-expected liquidity support by the European Central Bank (ECB) and Bank of Japan (BoJ), a delay in Fed tightening, a failure by European policymakers to agree on ECB easing and a weaker-than-expected growth outlook.

Key downside risks for bonds include a faster-than-expected pace of Fed tightening, a sharp rebound in European or Japanese inflation and growth, European politics and any surprise rebound in peripheral debt yields.

Unconstrained approach still attractive

An unconstrained approach to bond investing offers flexibility to allocate across the fixed income space. This approach to bond portfolios entails flexibility to allocate across the entire spectrum of bond asset classes, as opposed to being tied down to one or two benchmarks (such as an IG index) alone.

There may be benefits in an unconstrained approach in today's bond market environment. Structurally falling yields have meant that yields or coupons have offered less and less buffer against price volatility over time (see Figure 22). This means tying bond portfolios to a low-yield benchmark may unnecessarily expose them to interest rate risks as policy rates rise.

An unconstrained approach is not without risks. Critics argue that such an approach leads to a greater allocation towards riskier parts of the bond universe. An unconstrained allocation is also more dependent on tactical asset allocation decisions within fixed income, which can lead to slightly higher volatility.

On balance, we believe this approach an interesting alternative in 2015. Low absolute yields, the continued risk of rising yields (in the US) and continued liquidity support from central banks in Europe and Japan mean that an unconstrained approach may continue to perform well in 2015. While we are cognisant of the risks, we believe this approach is more likely to unearth pockets of value in different parts of the bond universe. The greater-than-usual allocation towards corporate bonds, usually seen as a criticism of this approach, actually lines up better with our positive view on corporate credit.

The liquidity risk in bond markets is worth a separate mention. Since the 2008 crisis, secondary market liquidity in many parts of the bond market has been far more difficult to come by than usual. This is likely due to a variety of factors, including regulatory changes that have made it less attractive for traditional 'market makers' (ie, the major bond market desks that hold significant amounts of inventory) to hold inventories of bonds to sell.

Bond price undershoot is the key risk. One consequence of limited liquidity is that investors have been increasingly reliant on the new issue market to build exposure. A bigger risk, however, is that limited secondary market liquidity could lead to bond prices undershooting significantly if a relatively large number of investors attempt to reduce exposure at the same time – a real risk to bond markets once the Fed begins to tighten policy.

Conclusion

We continue to expect bonds to underperform equities in 2015, though we emphasise this Underweight is centred largely on G3 government bonds, where yields remain very low and the risk of capital loss is high. We continue to see opportunities in bond markets in (a) EM IG sovereign bonds, (b) corporate credit in DM and Asia, and (c) CNY and INR local currency bonds.

HY bonds continue to offer interesting yields, but we hold ourselves back to a Neutral view as risks are rising for both DM HY corporates and EM HY sovereigns. In our view, an unconstrained approach to bond investing offers a flexible way of gaining exposure to attractive areas within fixed income, while managing risks.

Equity – Outperformance, but increased volatility

| Clive McDonnell | Audrey Goh |

Key themes

- Rising US interest rates and lower oil prices will be key drivers in 2015
- We expect global equities to outperform bonds for the third consecutive year
- We are Overweight the US and Europe/Japan on a currency-hedged basis
- We are Underweight Asia ex-Japan, but expect positive returns and remain Overweight India
- Global Technology and US Food and Beverage sectors are our top sector picks in 2015

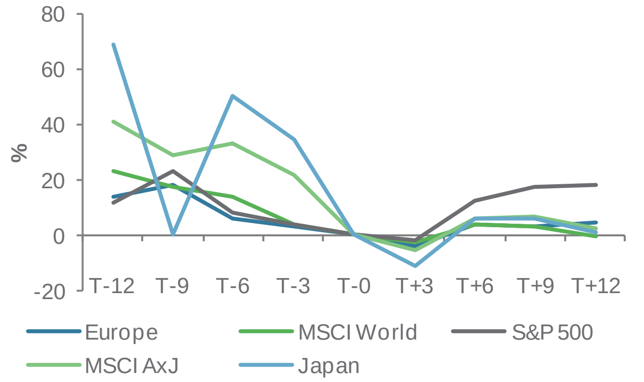
Lower rates and oil to drive DM equities higher

Two themes are likely to drive equity markets in 2015 – rising US interest rates and the impact of lower oil prices. Lessons from prior US rate-hiking cycles and periods following sharp declines in oil prices indicate that global equities can continue to perform well. Rising US interest rates reflect increased optimism regarding the US economic outlook, while lower oil prices will ease inflationary pressures.

Rising US interest rates is also consistent with Developed Market (DM) equity markets outperforming Emerging Market (EM). This implies a continuation of the performance trend in recent years. Within Asia, we believe India is likely to outperform given the market's domestic focus and improving fundamentals.

Figure 26: Data reflects last three rate-hiking cycles average returns

Equity market returns 12 months before/after US rate hikes



Source: Bloomberg, Standard Chartered Bank

Within Asia we have raised China, Taiwan and Thailand to Overweight, cut MSCI Hong Kong and Singapore to Underweight and Korea is reduced to Neutral. An improvement in the outlook for banks leads us to upgrade China and concern about the impact of rising US rates on Hong Kong and Singapore leads to cut downgrade these markets.

The pace of corporate earnings growth in 2014 has accelerated relative to 2013 in DM, after adjusting for exceptionally strong Japanese earnings growth in 2013. Nevertheless, the absence of a strong pick up in earnings growth during the year has contributed to the slow pace of equity market gains relative to prior years. Since January 2014, consensus forecasts for DM earnings growth have declined to 5% from 11%. In Asia, consensus earnings growth forecasts have declined to 5% from 13%. Only in Japan have earnings finished the year stronger than they had started at (20% compared with the 19% in January).

Figure 27: European corporate earnings have disappointed the most

2014 consensus corporate earnings trend (100=Jan 2014)

	Earnings growth	2014 Trend cf. 2013	Pos/neg Earnings surprise
Developed markets	✓	↓	x
US	✓	↑	x
Europe	✓	↔	x
Japan	✓	↓	✓
Asia ex-Japan	✓	↓	x
Emerging markets	x	↓	x

Source: IBES, Datastream, Standard Chartered Bank

We continue to watch for signs of a pick-up in earnings revisions, which is a lead indicator for a rise in earnings growth expectations. A move to positive earnings revisions would unlock the next phase of sustainable market gains, in our view. Japan and Taiwan are the only two markets that saw earnings revisions move into positive territory in 2014. China and India may see positive earnings revisions in early 2015 based on the steady improvement in revisions in H2 14.

Our 12-point checklist for US equity market has seen an increase in the number of flags during the year. Currently, there are three amber flags (?) and four red flags (X). There is a risk we shift to a majority of red flags in 2015, which could occur around the time of the first US rate hike. This would have implications for equity markets, which we discuss below.

Equity – Outperformance, but increased volatility (cont'd)

Equities to outperform bonds

We expect 2015 to be the third year in succession for global equities to outperform bonds. Forecast rate increases by the Fed are likely to weigh on bonds, while global equity returns have averaged 6% in the six months prior to the first Fed rate hike and 8% in the six months post the first hike over past three cycles. Returns from bonds have been lower over the same period.

Figure 28: Four red flags and three question marks on our US equity market check list

Equity market checklist

Market Indicators	
17x forward P/E multiple	?
Treasury rally	?
Domestic outperforming global	?
Defensives outperforming cyclicals	x
Unsustainable gains in S&P 500	
Global Indicators	
Negative surprise from Europe or Japan	x
Significant slowing in EM growth	x
Significant dollar strength	x
Reversal of manufacturing recovery	
Domestic Indicators	
Fading employment momentum	
Stalled housing recovery	
Policy wildcard	

Source: Bank Credit Analyst, Standard Chartered Bank

US – Remain overweight

We remain Overweight the US market, although we note that historically the market's performance 12 months after a rate hike, while positive, has been lower than in the 12 months prior to it. Drivers of our Overweight view include the following:

- Lower oil prices, which are likely to have a positive effect on US consumption in 2015. Analysis by the IMF highlights that the decline in US spending on energy can result in a windfall equal to a USD1,300 after-tax gain for households
- Continued improvement in employment, driving consumption higher
- A stronger USD acting as a restraint on inflation, although we note this could be a headwind for earnings
- Valuations, while elevated, are not at the highs witnessed in prior cycles

Europe – Remain Overweight

We remain Overweight Europe and add a currency hedge to protect against EUR weakness. Drivers of our Overweight view include the following:

- A majority of European corporate revenues are generated outside Europe. Hence, international growth trends are more important than trends within Europe
- A weaker euro should stimulate corporate earnings growth
- Leading indicators of bank lending have improved, which should help support a recovery in investment

Looking ahead to 2015, it is increasingly likely that the European Central Bank (ECB) will follow through on its commitment to do "whatever it takes". ECB President Mario Draghi noted during the December 2014 news conference the positive effect of quantitative easing (QE) in the US and the UK. He also signalled that he would take action in 2015 even in the face of German opposition to QE.

There are clear signs of a recovery in select European economies, including Spain and Greece. Nevertheless, we acknowledge that core economies including France and Italy remain perennially weak, while growth in Germany appears to be slowing. We forecast a modest improvement in European economic growth in 2015.

If the ECB does follow through with QE, the effect on equity markets is likely to be very positive, based on the effect of QE in US and Japan. In our view, the risk for Euro area growth from inaction by the ECB is greater than the risks associated with QE. Given the deflationary pressures, we believe the ECB will act, with positive implications for asset markets.

Asia – Reducing to Underweight on rate concerns

We have reduced our allocation to Asia ex-Japan to Underweight in 2015. Despite this downgrade, we emphasise that returns prior to a rate hike by the Fed are likely to be positive. Drivers of this Underweight view include the following:

- Analysis of prior US rate-hiking cycles since 1994 signals the region tends to Underperform DM peers by an average of 5% in the 12 months following the first rate hike by the Fed.

Equity – Outperformance, but increased volatility (cont'd)

- Prior periods of USD strength have seen portfolio fund outflows from Asia ex-Japan, raising the risk of downward pressure on markets as funds are re-allocated elsewhere
- Continued slowdown in Chinese economic growth likely to weigh on the region

Asia ex-Japan performance is likely to be a year of two halves, with positive returns ahead of a rate hike by the Fed and a risk of negative returns in the following months. For the full year, we expect positive, albeit muted returns from Asia ex-Japan. However, there are select markets with the potential to outperform in 2015, and we single out India as an Overweight. Positives include declining inflation, already implemented reforms and signs that earnings revisions are inching towards positive territory. In combination with the markets' domestic focus and improving fundamentals.

Amongst other Asian economies we are Overweight China, Taiwan and Thailand and Underweight MSCI Hong Kong, Singapore and Malaysia, Neutral Korea.

We remain Underweight EM ex-Asia. Brazil, Russia and South Africa account for 60% of MSCI Emerging Markets ex-Asia. As such, the decline in commodity prices, including those of oil, iron ore and copper, are expected to weigh heavily on this category.

The outlook for Brazil remains challenging in the short term, with interest rates recently rising to a two-year high. Consensus earnings growth started 2014 at 14%, but will likely finish the year at a mere 3%, which reflects the slowdown in China and high domestic inflation. The outlook for 2015 will continue to be determined by growth trends in China and potential government reform measures. Consensus earnings growth for 2015 is an optimistic 12%.

Japan – Raised to Overweight

We recently increased our allocation to Japan to Overweight on a currency-hedged basis, driven by the following factors:

- The weaker JPY is estimated to raise both GDP and earnings growth. Japanese 2014 EPS growth at 20% is already the highest amongst its DM peers
- Flows to domestic equity markets are forecast to increase as the Government Pension Investment Fund (GPIF) and households raise their equity holdings at the expense of bonds
- Increase in QE by the Bank of Japan (BoJ) to JPY 80trn, with a JPY 1trn increase in equity market purchases and an additional JPY 30bn in REIT purchases

Theme 1: Impact of US rate-hiking cycle on Asia

Our analysis of the effect of prior US rate-hiking cycles (1993, 1999 and 2004) on Asian markets highlights the following conclusions:

- Asian equity market returns are positive, but lower in the 12 months following a rate hike compared with the prior 12 months. India is the exception to this guide, with returns higher after the rate hike
- Economic growth tends to slow in the first and second year following a rate hike. India again stands out as an exception to this
- Interest rates in Asia, after adjusting for inflation, are currently at similar levels compared to prior cycles, suggesting the impact on growth may follow a similar pattern

Figure 29: Real interest rates are currently similar to prior cycles

Asian macro trends at time of US rate hikes

	Current	3 Cycle Average
Inflation	1.4%	4%
Interest rates	3.3%	6.5%
Real rates (approx.)	2%	2.5%
Asia GDP*	6%	8/5/7%
Global GDP*	2.4%	3.4/3.6/5.4%
12m fwd P/E	11.5x	11x

Source: IMF, Bloomberg, Standard Chartered Bank

**3-cycle average is refers to actual Asian GDP in 1994/1999/2004*

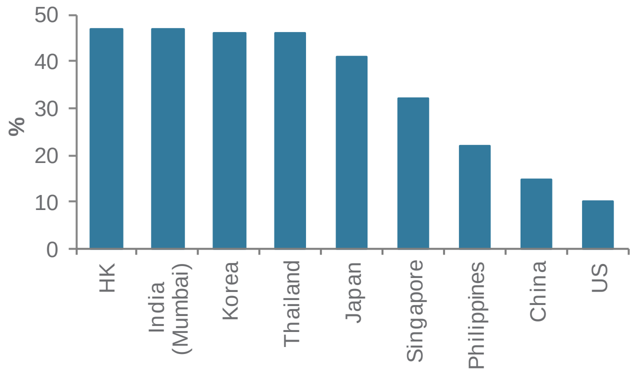
Theme 2: Impact of falling oil prices

The 40% decline in oil prices since mid-2014, if sustained, is likely to have a positive impact across the globe. Economists estimate that a USD 20/bbl decline in the price of oil increases global GDP by 0.3%, other things remaining the same. The spread of the positive effect across the globe is, however, uneven. Differences in taxes levied on energy, primarily petrol, imply that the US will be the biggest DM beneficiary, while the Philippines will likely to be the biggest beneficiary in Asia.

As highlighted in Figure 30, there are wide differences in the price of petrol across economies in Asia, varying from USD 2.05 per litre in Hong Kong to as low as USD 0.69 per litre in Malaysia. Fuel costs differ primarily due to taxes and duties, which range as high as 47% in Hong Kong to 0% in Malaysia (excluding GST). Countries with lower taxes can be expected to benefit more from falling crude prices.

Equity – Outperformance, but increased volatility (cont'd)

Figure 30: Taxes are lowest in the US
Average petrol taxes across countries



Source: Bloomberg, Standard Chartered Bank

Lessons from prior oil price declines. Looking back to periods when oil prices witnessed significant price declines may offer some guidance as to the effect of the recent declines on countries in Asia. The decline in crude oil prices in 2008 to USD 34/bbl (from USD 145/bbl) had a significant positive impact on inflation, with the average rate in Asia falling to 1.2% from 7.4%. Of course, part of the decline in inflation is attributed to the Great Recession. Nevertheless, it has also opened the door for policymakers across the region to ease policy in response to falling inflation pressures.

Focusing on India and the Philippines, as energy has the highest weight in their CPI baskets (23% and 15%, respectively). Between 2008 and 2009, inflation in India declined to 0% from 11% (WPI), while in the Philippines, it declined to 2% from 10%, allowing policymakers to cut rates to 3.25% (from 6%) and 4% (from 6%), respectively. Looking ahead, the solid growth backdrop implies the Philippine Central Bank is unlikely to cut rates in the immediate future; instead, a hike is possible. For India, the decline in inflationary pressure from falling energy costs opens the door for the central bank to cut rates from the current 8%.

The impact on growth in these two economies in 2008-2009 was muted due to the global backdrop. As the global and respective local economies are in better shape in the current cycle, we expect a significant positive effect on growth due to lower oil prices.

Impact on the US. In contrast to Asia, where taxes and duties account for an average of 37% of petrol prices, taxes in the US account for only 10% of the price. As such, the impact of falling crude prices are felt very quickly by US consumers. At its peak in 2014, the average US petrol price reached USD 3.70 per gallon. However, it has since fallen 30% to USD 2.65 per gallon. Research by global petrolprices.com indicates a 10% decrease in oil prices results in a 7% decline in US petrol prices within seven weeks. In contrast, a 10% drop in oil prices results in a 3% decline in petrol prices in Europe over the same period.

The average American drives an estimated 14,000 miles per year, compared with a mere 4,000 miles in Europe. As such, the impact of falling petrol prices has a greater effect on US household budgets compared with those in Europe. In terms of quantifying what the decline in oil prices means for US consumers, we estimate the decline is equivalent to an annual USD 1,300 windfall for every US household. This estimate is based on the view that US household spending on energy could decline to 3% of all expenses in 2015 (from 4% in 2012). At the aggregate level, this implies an additional USD 150bn boost to household income. Given US consumers' high propensity to spend rather than save, this is likely to have a significant impact on the economy and earnings amongst corporates with exposure to consumer spending, including auto, retail and food and beverage.

Figure 31: Spending could fall to as low as 2% as in the 2008 cycle
US household spending on fuel as % of total

Source: Bloomberg, Standard Chartered Bank

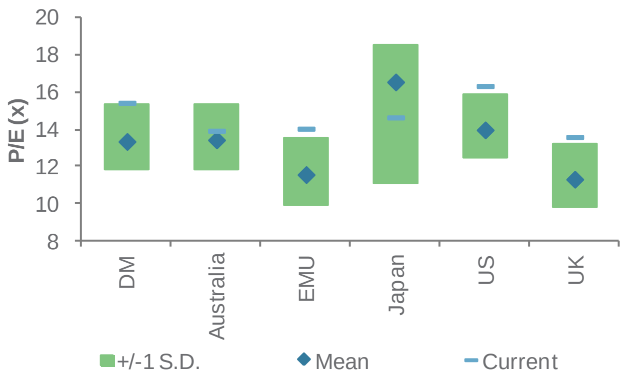
Theme 3: Margin recovery in Japan to drive market higher

A key theme for the Japanese equity market in 2015 is the potential for an increase in corporate margins and upward revisions to consensus earnings growth forecasts. The market's below-average valuation relative to its 10-year average creates a unique investment opportunity in 2015. Japan is the only major DM where current valuations are below their 10-year average.

Equity – Outperformance, but increased volatility (cont'd)

Figure 32: DM are above long-term averages ex-Japan

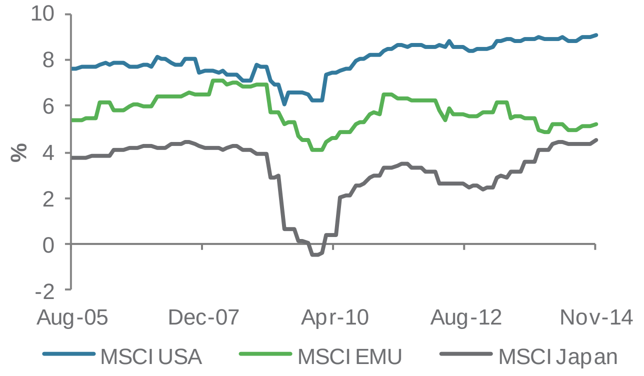
Forward P/Es comparisons across DM



Source: Bloomberg, Standard Chartered Bank

Figure 33: Margins in Japan have been increasing

Net margins in DM



Source: Bloomberg, Standard Chartered Bank

Sectors in the Japanese market that are likely to be winners from enhanced margins are the ones with an export bias, including technology, autos and capital goods. Conversely, sectors with a domestic bias are unlikely to benefit to the same extent.

Looking ahead, there will be a time to switch away from a focus on exporters. Rising real wages will be the most important signal to watch in this regard.

The primary driver of improved corporate margins and earnings is a weak JPY. More importantly, we have a recent precedent to gauge the positive effect of this. During November 2012-May 2013, when the JPY depreciated 22% against the greenback, margins increased to 4.4% from 2.2% and corporate earnings in 2013 increased by a massive 60%.

Japanese margins could rise to 6% in 2015. Japan currently has the lowest margins amongst its DM peers, implying there is scope for an increase. While margins are unlikely to get close to the 10% seen in the US, primarily owing to Japanese firms' greater focus on market share than profitability, net margins should be able to climb to 6% in 2015. This would further boost earnings, which consensus currently forecasts as rising to 10% in 2015.

Japanese market valuations are attractive. One of the most attractive investment characteristics of the Japanese equity market is its valuation. While the market has risen over 7% in local currency terms in 2014, earnings growth has outpaced index gains, implying valuations, as measured by P/E, have fallen to 14x, lower than earlier this year.

Conviction sector views

Global Technology: We continue to like the Technology sector, the second largest in DM, in 2015. It was one of the best performers in 2014, rising 16%, and we continue to see it as well-positioned into the coming year. The key drivers of our constructive views include the following:

- Its oligopolistic structure and increased capital discipline should support semiconductor pricing in 2015. While the market is concerned about recent capacity expansion, we note these are largely to replace legacy capacity, which suggests the current supply constraint could well persist into 2015. Any supply growth is also expected to be gradual given the increasing complexity (eg, NAND Flash memory chips)
- Excluding smartphones and tablets, market research firm IDC expects total spending to rise by 2.4% in 2015 and 3.2% in 2016, led by IT services, storage and software
- Tech companies are strongly cash-generative, supportive of more share buybacks and increased dividend payouts. The sector's dividend payout ratio has increased from 20% in 2010 to 29% currently. The sector's earnings growth is also expected to outpace the market at c.21% y/y in 2015 compared with about 16% growth for global equities

While there is significant valuation dispersion within technology on a P/E basis, we note that on a price-to-cash flow basis, tech companies look cheaper than they have been historically and compared with the broader market.

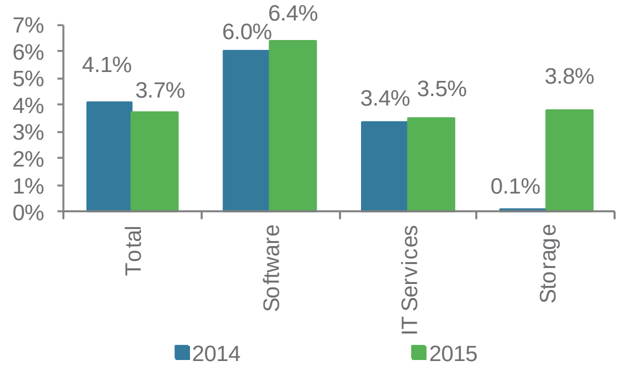
Within the sector, we believe the outlook for semiconductors is particularly rosy. Mobile devices may face further margin pressures given intensifying competition, but the PC market is likely to continue stabilising, with the contribution to

Equity – Outperformance, but increased volatility (cont'd)

growth from DM outperforming EM. We prefer market share gainers/consolidators within the space. Software/internet companies have attractive long-term growth prospects but could be challenging to value, particularly companies in the early growth phase. We prefer to stick with market leaders with proven earnings potential and a track record in monetising internet traffic.

Figure 34: Global IT spending is projected to rise in 2015

Global Technology sales growth forecast



Source: IDC, Bloomberg, Standard Chartered Bank

Food and Beverage: We suggest investors increase their exposure to the food and beverage sector within DM, the biggest industry group within Consumer Staples. We suggest a focus on US F&B companies. Drivers of our increased conviction for the sector centre on the following:

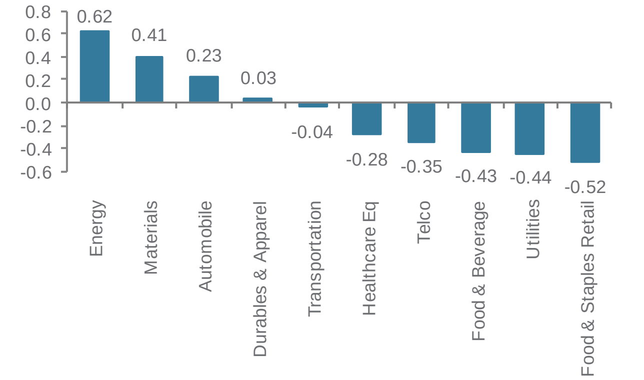
- When the US raises interest rates (likely in the summer of 2015, in our view), the sector has historically outperformed the market
- The sector is a prime beneficiary of falling oil prices, with one of the highest negative correlations with WTI oil prices
- Earnings are expected to accelerate as households spend part of their windfall gains from the decline in oil prices on consumer goods, including food and beverage

One of the defining moments for global equity markets in the coming year is the likely first US interest rate hike in the cycle, which we expect in mid-2015. If the Fed raises rates, it will signal a move to a more mature phase of the bull market in equities. Historically, at this point in the cycle, the Food and Beverage sector has joined the ranks of outperformers, which include consumer discretionary, financials, technology, industrials, materials and energy.

The US Food and Beverage sector has one of the highest negative correlations with WTI oil over the past five years at -0.43. While Utilities has a greater negative correlation, this is a defensive sector that historically has not outperformed the market at this stage of the cycle.

Figure 35: Consumer Staples has the highest negative correlation with oil

US sector relative performance correlation with WTI prices



Source: Bloomberg, Standard Chartered Bank

Reasons why the Food and Beverage sector benefits more from the drop in oil prices relative to the rest of the market centre on lower input costs. Companies in this sector should benefit from falling food, packaging and, most importantly, transportation costs. While the sector also benefits from a rise in demand as households spend part of their windfall from the decline in oil prices, this is likely to benefit all sectors with exposure to consumer spending.

The broader Consumer Staples sector, of which Food and Beverage is the largest industry group, is expected to see a change in the drivers of its performance going forward. The sector has done well since its low point in the cycle in 2009, rising 115%. However, this represents a modest underperformance relative to S&P 500. Most of the gains to date have come from rising valuations, with earnings growth making only a modest contribution. Looking ahead, the drop in oil prices is expected to lower costs and boost sales, which should be positive for margins and earnings.

Conclusion

Rising US interest rates and lower oil prices will be the biggest drivers of equity markets in 2015. We expect DM to outperform EM. The US, Europe (hedged) and Japan (hedged) are our top picks in 2015. We are Underweight Asia ex-Japan, but single out India as having the potential to outperform in the year ahead. From a sector perspective, we favour Technology and the Food and Beverage sectors.

Key risks

Sooner than expected Fed rate hikes. The Fed and geopolitical risk are the greatest risk for equities in 2015.

Commodities – Supply risks to weigh

| Manpreet Gill |

Key themes

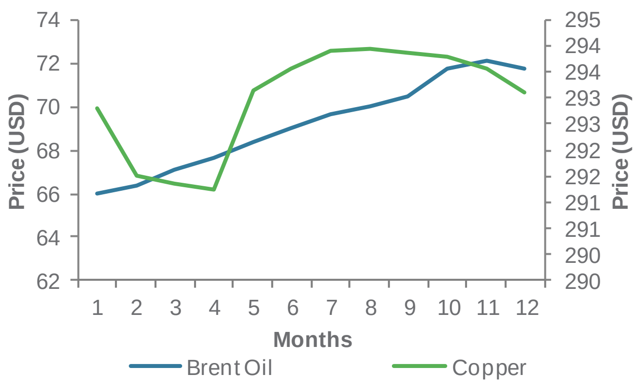
- **Underweight Commodities.** A largely unchanged demand outlook, still-high or growing inventories and a modestly stronger USD will work against commodities in 2015, in our view
- **Underweight gold. Policy tightening by the US Federal Reserve is negative for gold, and inflation-adjusted prices are high**. However, higher volatility and excessive short USD positioning mean prices are unlikely to move lower in a straight line
- **Oil prices may weaken further before a supply response provides support.** The largest producers retain sufficient reserves to ride out an extended period of price weakness
- **Industrial metals outlook not as negative.** Much more of the bad news is now likely priced in. However, a price rebound appears unlikely for now

Demand-supply remains imbalanced

We downgrade commodities to Underweight. The asset class remains caught between weak demand factors (especially lagging Chinese growth) and strong supply (especially in oil, but this is also reflected in elevated metals inventories). Price is the only factor that is substantially lower than last year, but there is no reason prices cannot go lower still in many commodities.

Figure 36: Upward-sloping futures curves mean there is a cost to directly investing in commodities

Copper and oil 12-month future curves



Source: Bloomberg, Standard Chartered Bank

A moderately stronger USD is likely to be a drag on returns. As we explain in greater detail in our FX section (page 30), we expect the USD to continue trending higher in 2015. While we expect this strength to occur at a more modest pace than in 2014, it may still be sufficient to impose a drag on USD-denominated commodity prices.

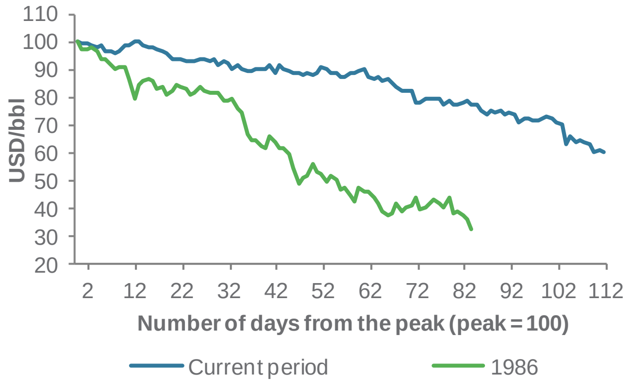
Upward-sloping futures curves mean there is a cost to direct commodity exposure. The futures curve for many commodities remains upward-sloping. This means there is still a cost to holding direct exposure to the commodity as prices climb up the future curve as time passes.

Neutral energy amid elevated near-term risks

A lack of supply reaction to lower oil prices means price weakness may extend near term. There appeared to be little consensus at the late-November OPEC meeting in terms of coordinated supply cuts. This is not historically unusual, but suggests oil prices could first go lower before they go higher. At a very basic level, commodity prices are about supply and demand imbalances. While the demand picture may not have changed significantly, we believe supply remains excessive. By itself, this does not incentivise producers to cut output immediately. Many producers may, instead, choose to raise output where possible to maximise total revenue, especially cash-strapped governments such as in Iran, Venezuela, Russia, Nigeria and Ghana. This poses the risk that prices could fall further, in our view.

Figure 37: The 1986 experience illustrates how much pain key oil producers could be willing to take

Brent oil price from peak – 1986 and current



Source: Bloomberg, Standard Chartered Bank

The 1986 'price war' experience is instructive, though we do not expect price weakness to be as pronounced. This experience suggests supply cuts are necessary to bring about greater support for oil prices. However, this can come about either through voluntary supply cuts, or lower prices that can eventually force supply cuts as marginal producers become unable to continue to produce at loss-making levels – pressure that is most evident in the private sector-led US shale oil industry.

Commodities – Supply risks to weigh (cont'd)

Price support is likely to eventually emerge, but this can take time. The experience also illustrates just how much pain key OPEC oil producers are willing to endure over relatively short periods of time. Oil producers' budgets do need to eventually balance out, but history suggests prices can take some time to recover. In the meanwhile, we would not be surprised to see a short-lived technical rebound in oil in the early part of 2015, given just how much it has fallen over such a short time.

Underweight gold – Weakness likely to extend at a gradual pace

A tightening Fed is negative for gold. A rise in Fed policy rates in 2015 is likely to push gold prices lower through two channels:

- **USD:** Tightening Fed policy is likely to lead to further, albeit modest, USD strength. This is likely to continue working against gold, as it did for most of 2014.
- **Opportunity costs:** Higher US Treasury yields raise the opportunity cost of holding gold, an asset class that yields nothing – ie, prices need to constantly rise just to keep up with bonds.

  The opportunity cost argument extends beyond yields alone – continued positive equity market returns, for example, also raise the opportunity cost of holding gold.

Figure 38: Gold price off its peaks, but still appears 'expensive' in inflation-adjusted terms

Gold in constant 2014 US dollars

Source: Bloomberg, Standard Chartered Bank

History is not supportive either. As Figure 38 illustrates, while prices have come off their peaks in inflation-adjusted terms, they remain well above historical averages. It appears difficult to justify gold prices at current inflation-adjusted levels unless US inflation returns to the double-digit levels of the late 1970s. This appears highly unlikely with disinflationary pressures increasing in recent times against the backdrop of weaker oil prices.

The path lower is unlikely to be smooth. Shifts in the market's assessment of the timing of the Fed's first rate hike could be a source of volatility. A delay in the timing of the first rate hike would likely prove temporarily supportive for gold, though any data that causes the market to bring forward its expectations about the timing of the rate hike would likely be strongly negative for the precious metal. Overall, we believe gold's path is likely to be somewhat uneven through the course of 2015, but we expect it to end the year lower.

Overweight industrial metals – A 'less-bad' outlook

Many key risks are arguably increasingly priced in following sustained weakness. Over 2014, industrial metals price weakness has been led by approximately 12% weakness in copper and an almost 50% fall in iron ore. While we remain concerned by the overall tepid demand outlook, particularly a slower Chinese housing market and still-elevated inventory levels, we are beginning to question how much is now in the price.

Lack of further downside is the key theme rather than any expectation of substantial price gains. Elevated inventories are likely to take time to be drawn down while demand growth is likely to be slow to pick up. However, we believe the downside is likely to be much more limited from here on. Select metals (such as aluminium) face a much more positive demand/supply balance.

Neutral agricultural commodities

Weather key to the outlook. 2014 was a year of relatively benign weather-related events, leading to comfortable supply that capped prices. This effect was more pronounced for grains (such as corn), but less so for soft commodities (such as coffee). While we do not want to attempt to predict the weather, what this does tell us is that agricultural commodities are likely vulnerable to any adverse weather surprises at current prices. We remain Neutral.

Key risks

Key upside risks for commodities include a delay in the Fed's first rate hike, a rebound higher in growth (particularly in China) and adverse weather events.

Key downside risks for commodities include faster-than-expected Fed rate hikes, an extended slowdown in China's housing market and a failure by key oil producers to curtail output to match demand.

Alternatives – A return to trend

| Manpreet Gill |

Key themes

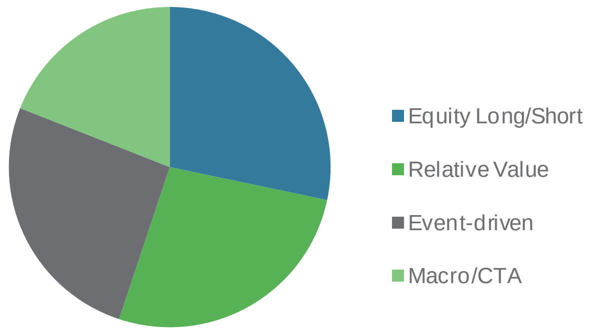
- **Overweight Alternative Strategies.** Diverging central bank policy, the likelihood of clearer macro and market trends and a rising demand for protection against volatility likely to offer support
- **Equity long/short strategies** offer an attractive alternative to gaining equity exposure while managing volatility
- **Macro/CTA (Commodity Trading Advisors) strategies** are likely to perform well as macro trends become clearer and policy divergence intensifies with the US Federal Reserve helping with the transition towards a more 'normal' macro environment
- **Event-driven strategies** likely to benefit from strong corporate cash balances, which in turn are likely to trigger further mergers and acquisitions activity

Supportive environment for alternative strategies

Alternative strategies are likely to outperform cash and bonds in a less-certain 2015. They are also attractive to hold alongside equities, especially if equity volatility rises around the Fed's first rate hike.

Figure 39: Equity long/short strategies – The largest component of the Alternative Strategies universe

Breakup of the HFRX Global Hedge Fund Index (as proxied by the UBS HFRX Global Hedge Fund Index ETF)



Source: UBS, Standard Chartered Bank

A number of factors are likely to come together in favour of this asset class:

- A likely return to a more 'normal' policy environment and clearer trends in financial markets after the first Fed rate hike
- Divergence in the outlook for economic and monetary policies for the world's major economies
- An increasing need to own some protection against higher financial market volatility
- Still-strong corporate cash balances

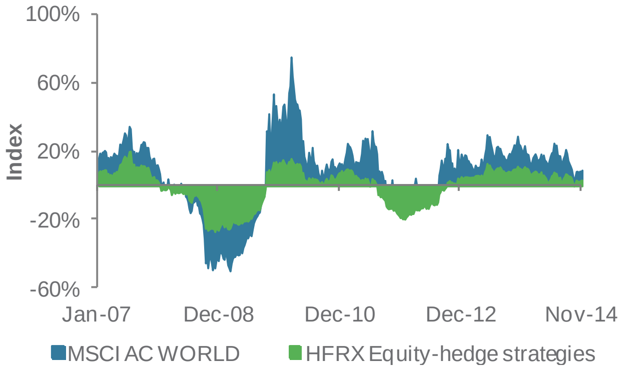
Long/short strategies offer equity exposure with lower volatility

We continue to favour equities, but long/short strategies are likely to help reduce volatility. This strategy's ability to go both long and short means that while it underperforms a long-only position during periods of strong gains, it often outperforms during periods of equity market weakness. We believe this quality will be valuable in 2015 – historically, the range of equity market volatility has tended to rise around the time the Fed begins a rate-hiking cycle. This suggests long/short strategies could even outperform long-only equities in the period immediately after the Fed's first rate hike above zero.

The key risk is the still-muted dispersion in stock valuations. However, at the sector level, industries like Healthcare and Technology are experiencing significant disruption and innovation, which may offer attractive opportunities to shrewd stock pickers, both on the long and short sides.

Figure 40: Equity long/short strategies help reduce volatility relative to long-only strategies

MSCI AC World vs. HFRX Equity-hedge strategies



Source: Bloomberg, Standard Chartered Bank

Policy divergence creating opportunities in macro/CTA strategies

Trending markets and a return to a more 'normal' policy environment are key positives for this strategy. Strategies within this sub-asset class tend to fall into two groups – discretionary (macro) and systematic (CTA).

Alternatives – A return to trend (cont'd)

Figure 41: Macro/CTA strategies' 2014 performance – An example of how divergence/trending markets can help

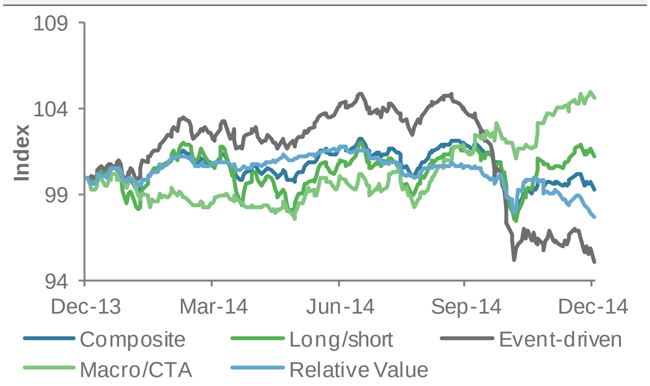
HFRX Macro Strategies' Index vs. USD Index

Source: Bloomberg, Standard Chartered Bank

Discretionary strategies, on one hand, are likely to benefit from being able to take views on significant macro events. A likely return to above-zero rates in the US and Japan's recent expansion of quantitative easing (QE) have meant that the divergence between monetary policy has intensified. Such an environment has typically been very favourable for discretionary global macro managers, as it tends to generate attractive trading opportunities in interest rate and currency markets – two of their favourite hunting grounds. Therefore, we believe that discretionary global macro managers are well positioned to achieve attractive absolute returns in 2015 that are relatively less correlated to equities.

Figure 42: Macro/CTA strategies began to outperform in H2 14

HFRX Alternative Strategies' total return indices



Source: Bloomberg, Standard Chartered Bank

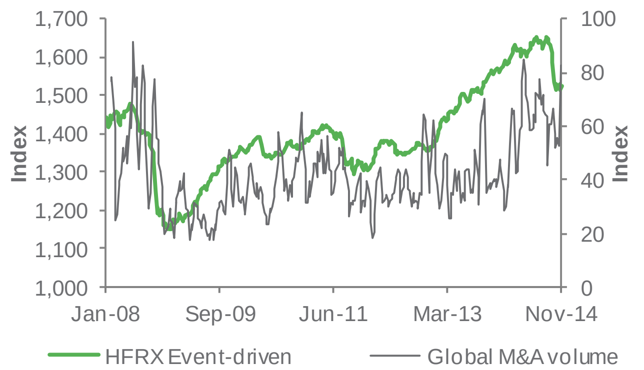
Systematic strategies, on the other hand, are likely to benefit from clearly trending markets. Once again, rising policy divergence between the Fed (which is likely to tighten policy) and the ECB and BoJ (which are likely to maintain, or further ease, policy) is likely to support this strategy by creating more clear-cut trends, particularly in the FX and rates markets.

Event-driven strategies to benefit from a continued rise in M&A volumes

Continued strength in corporate cash balances is likely to lead to further gains in M&A activity. High corporate cash balances tend to be correlated with global M&A activity. Heightened activity, in turn, tends to be correlated with higher returns from this sub-strategy. We believe the cycle is still some time from closing, usually characterised by a fall in the quality of deals done. Hence, we believe this sub-strategy has more room to run.

Figure 43: Event-driven strategies likely to benefit from rising M&A volume

HFRX Event-driven strategies vs. Global M&A volume



Source: Bloomberg, Standard Chartered Bank

Key Risks

Key upside risks for alternative strategies include heightened volatility, rising stock market and cross-asset class dispersion, an intensification of policy divergence and a boom in M&A activity.

Key downside risks for alternative strategies include significant macro or policy surprises, rising cross-asset correlation and a fall in M&A activity.

FX – Divergence to dominate

| Tariq Ali |

Key Themes

- **Bullish USD**. Expect continued USD strength, but less so compared to 2014
- **Moderately bearish commodity currencies.** Further downside still expected in commodity prices, but less compared with 2014
- **Asia ex-Japan currencies.** Expect CNY and INR to outperform. Moderately bearish the KRW and TWD

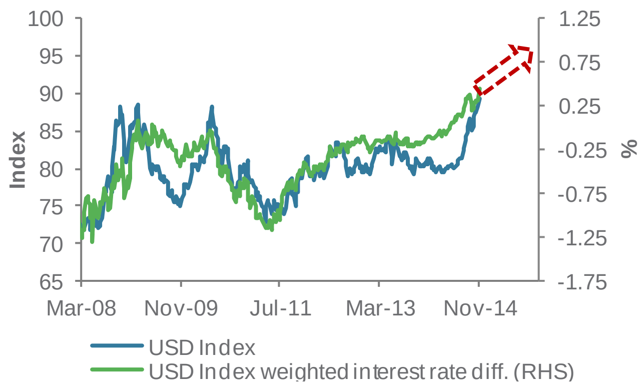
Key views

We expect USD strength in 2015. Monetary policy divergence remains the key driver of this view. Interest rate differentials are likely to widen further, in our opinion, as the Fed begins its rate-hiking cycle while other major central banks such as the European Central Bank (ECB) and Bank of Japan (BoJ) continue to ease monetary policy.

Outside of interest rates, it is difficult to ignore an improving balance of payments in the US. The current account deficit continues to improve, while capital inflows have picked up markedly.

Figure 44: USD strength has closely followed interest rate differentials with peers

US 2-year interest rate differentials and USD Index*



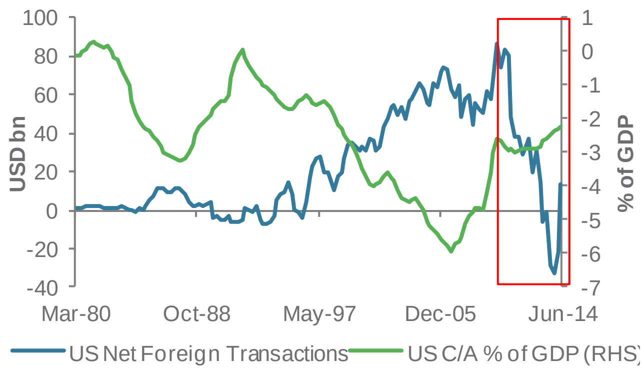
Source: Bloomberg, Standard Chartered Bank

** using USD index weights*

Divergence to be the main anchor in currency markets. Historically, the USD has not always strengthened alongside the US Federal Reserve's rate-hiking cycles. However, the key point here is divergence. The level of divergence between the Fed and other major central banks is particularly high in the current hiking cycle. In the previous rate-hiking cycle (2004-2006), the ECB and the BoJ initiated tightening relatively quickly after the Fed. Presently, however, the BoJ and ECB are likely to continue to ease even as the Fed prepares to tighten. As a result, higher yields amidst a more constructive economic outlook are expected to accelerate fund flows into the US and support the currency. The main risk is a delay in Fed tightening.

Figure 45: Strong capital inflows in the US amidst a declining current account deficit

Net foreign transactions and US current account deficit



Source: Bloomberg, Standard Chartered Bank

The magnitude of USD strength is likely to be less than in 2014. The outgoing year saw the best USD performance since 2005. However, as in 2014, we believe USD strength will be most pronounced against the EUR and JPY, where monetary easing continues. We expect a 75-100bps pick-up in 2-year Treasury yields to generate roughly mid-single-digit returns to USD performance in 2015.

USD gains are likely to be modest against commodity currencies (AUD, NZD and CAD) given the sharp decline in commodity prices may have been priced in. We also expect modest USD strength against Asia ex-Japan currencies.

Although we expect the USD to strengthen in 2015, there is a risk of some short-term consolidation following a strong rally and overcrowded positioning.

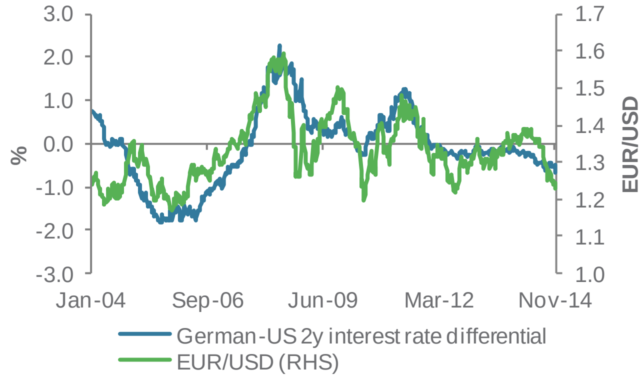
- **Major currencies (EUR, JPY and GBP) – Economic and monetary policy divergence to further weaken the EUR and JPY, albeit at a lesser magnitude.**

  We are bearish on the EUR. The implementation of further monetary policy easing measures and economic divergence with the US will drive additional EUR weakness, in our opinion. We believe weak economic fundamentals and deflation risks will compel policymakers to act more decisively. The main risk to our view would be the inability of ECB policymakers to implement broad quantitative easing. The ECB's purchase of individual countries' sovereign debt has been politically contentious in the past.

FX – Divergence to dominate (cont'd)

Figure 46: EUR weakness reflecting interest rate differentials with the US

German-US 2-year interest rate differentials and EUR/USD

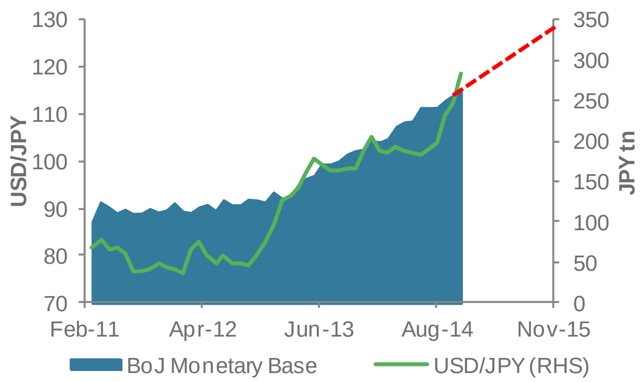


Source: Bloomberg, Standard Chartered Bank

- **We are bearish on the JPY.** In our view, the follow-through from the recently announced aggressive easing measures and outflows from Japan's Government Pension Investment Fund (GPIF) will further weaken the JPY. The BoJ's broad-based asset purchases will expand domestic liquidity, keep interest rates near record low levels and likely boost the JPY's status as a funding currency, especially as US interest rates start to rise. Japan's over USD 1tn-sized government pension fund, expected to seek a greater share of investments overseas, will also have profound balance of payment implications, in our opinion.

Figure 47: USD/JPY broadly following the BoJ's balance sheet expansion

BoJ monetary base and USD/JPY

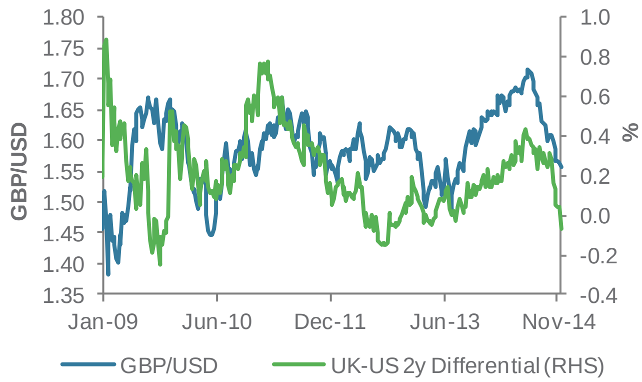


Source: Bloomberg, Standard Chartered Bank

- **We are neutral on the GBP.** We believe GBP weakness is likely to be limited amidst lower economic and policy divergence with the US. We believe the Bank of England (BoE) is likely to begin raising interest rates in 2015, ahead of most major central banks except the Fed. On the political front, we see increased chances of a hung UK parliament in the upcoming general elections. While not an outright negative in our opinion, uncertainty regarding the composition of new government can increase currency volatility in the short term.
- **We are bullish on the GBP against the EUR and CHF.** We believe that better economic fundamentals in the UK, compared with the EU and Switzerland, will result in outperformance of the GBP/EUR and GBP/CHF cross pairs vs. GBP/USD. On the other hand, we prefer the EUR over the CHF as the Swiss National Bank (SNB) remains committed to maintaining a floor on the EUR/CHF pair. As a result, we see any move towards the 1.2 EUR/CHF floor as an opportunity to accumulate the EUR against the CHF.

Figure 48: An eventual pick-up in UK rates likely to limit GBP downside

UK/US 2-year interest rate differentials and GBP/USD



Source: Bloomberg, Standard Chartered Bank

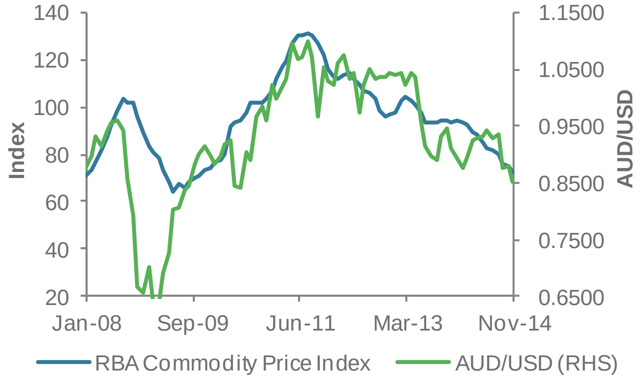
- **Commodity currencies (AUD, NZD and CAD) – Moderate weakness still expected, although a majority of the fall in commodities is likely priced in.**
- **We are moderately bearish on the AUD.** We expect a modest decline in the AUD on the back of depressed Australian commodity prices and a lacklustre growth outlook. However, we believe the majority of the weakness in prices of their key export commodities has already occurred. Iron ore and coal prices fell c.50% and c.28%, respectively, in 2014. Concurrently, Chinese steel exports have been rising of late, while inventories seem to be declining. Hence, while iron ore and coal prices may not rebound strongly, we believe downside risks are likely limited.

  Nevertheless, we believe the RBA will continue to favour a weaker currency until commodity prices rebound significantly. In this regard, further policy easing and direct intervention to restrict currency strength can't be ruled out.

FX – Divergence to dominate (cont'd)

Figure 49: Outlook for the AUD is largely dependent on Australian commodity prices

RBA Commodity Price Index and AUD/USD

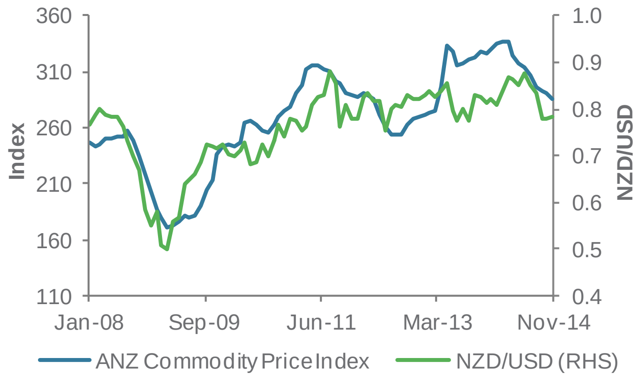


Source: Bloomberg, Standard Chartered Bank

- **We are moderately bearish on the NZD.** We expect a modest decline in the NZD, given depressed dairy prices and an extended pause in the interest rate-hiking cycle. However, we believe that the majority of the weakness in dairy prices has already taken place. Dairy prices have fallen c.35% in 2014 and are near a two-year low. As Chinese inventories are further exhausted, downside risks to dairy prices seem contained.

Figure 50: The NZD has closely followed New Zealand's commodity basket

ANZ Commodity Price Index and NZD/USD

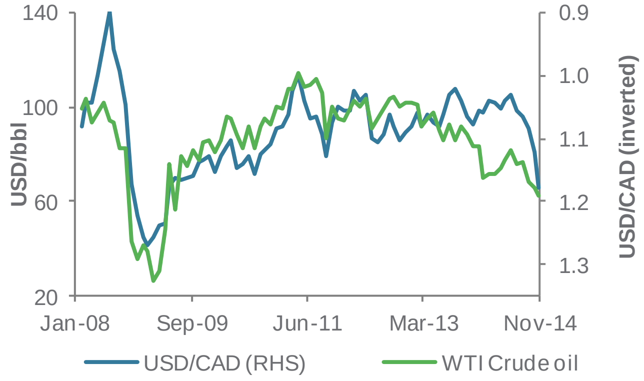


Source: Bloomberg, Standard Chartered Bank

- **We are Neutral on the CAD.** We expect the CAD to remain range-bound on a balance of positive and negative factors. We believe the price of oil, Canada's largest export, is unlikely to rebound significantly, CAD strength is likely to remain contained. On the positive side, domestic economic activity has remained robust amidst prospects of accelerating growth in the US. We believe the central bank is likely to maintain its present monetary stance as inflationary pressures remain subdued.

Figure 51: Oil price downturn likely to limit CAD strength

WTI crude oil prices and USD/CAD

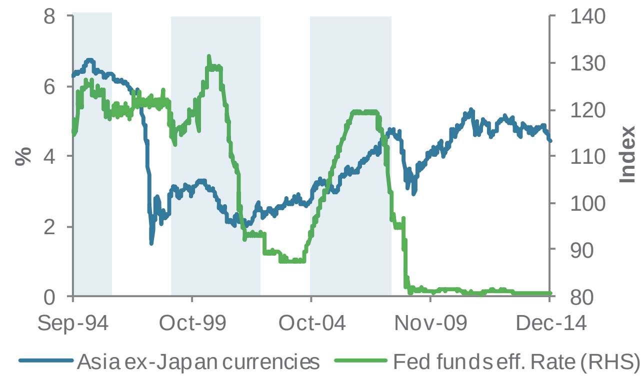


Source: Bloomberg, Standard Chartered Bank

- **Asia ex-Japan – We are overall cautious, but highlight some potential opportunities.**
- **Previous episodes of rate hikes since 1994 have seen strengthening of the Asia ex-Japan currency index**. This has been led by the KRW, TWD and SGD, or countries with strong external surplus and linkages to global growth. However, countries with current account deficits and weaker fundamentals have seen their currencies weaken (IDR and INR). Other Asian currencies (MYR, THB and PHP) have performed more idiosyncratically in different episodes.
- In the present Fed hiking cycle, we believe JPY weakness and slowing growth in China and Europe may force different trends compared with the past. In this regard, the KRW and TWD are likely to be most negatively affected. On the same note, however, better currency fundamentals, growth and reform prospects in India, Indonesia, Thailand and the Philippines is likely to be supportive for their respective currencies.

Figure 52: Asia ex-Japan currencies have generally strengthened as we approach Fed rate hikes

Asia Dollar Index and Fed funds effective rate



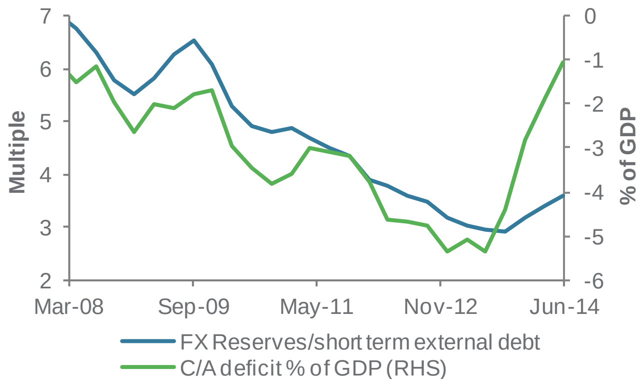
Source: Bloomberg, Standard Chartered Bank

FX – Divergence to dominate (cont'd)

- **We are Neutral on the SGD.** We believe supportive domestic monetary policy and strong currency fundamentals will allow the SGD to remain resilient to USD strength. We expect an extension of the current tightening monetary stance into 2015 as the authorities continue to proactively address domestic inflationary pressures. In the past, the central bank has maintained a tight monetary policy through every Fed rate-hiking cycle.
- **We are Neutral on the CNY.** We believe the Chinese authorities will keep the fixing rate for the currency stable in 2015. We see any move to weaken the CNY as being counter-productive for three reasons. First, there is little to gain from weakening the currency to support exports, as these have remained resilient. Second, any depreciation will likely result in China's trade competitors following suit, nullifying any potential gains. Third, a depreciation may decrease confidence in China's overall reforms progress.
- **We are moderately bearish on the KRW, TWD and MYR.** We believe the authorities in both South Korea and Taiwan have an incentive to weaken the KRW and TWD, respectively. The similarity with Japanese exports amidst substantial JPY weakness, slower growth in China and Europe and rich currency valuations are key concerns in this regard. However, positive linkage to global growth and a stronger balance of payments position will likely limit substantial downside.
- With respect to the MYR, we believe lower commodity prices, a relatively smaller current account surplus, the dependence on portfolio flows, smaller interest rate differentials and the strong negative correlation with the broad USD strength will keep the currency under pressure.
- **We are Neutral on the INR.** We believe balanced positive and negative factors will keep the INR broadly stable. A much reduced current account deficit, amidst lower oil prices, strong portfolio inflows, domestic reform optimism and high domestic interest rates are positives. In addition, India's FX reserve position relative to imports and short-term commitments has improved considerably. On the negative side, a major EM sell-off, reform implementation hang-ups and a high fiscal deficit pose potential challenges.
- Considering the relative balance of positive and negative factors, we expect any INR weakness to be limited.

Figure 53: External balance of payments improvement is a strong support for the INR

India's current account balance and FX reserves/short-term external debt



Source: IMF, Bloomberg, Standard Chartered Bank

- **We are Neutral on other Asia ex-Japan currencies (IDR, THB and PHP).** We expect limited weakness to broad USD strength. In case of the THB and the PHP, a stronger external position, improved domestic growth environment and stimulatory fiscal policies are key positives. Moreover, monetary policy is likely to maintain a tightening bias, providing further support.
- While Indonesia has a weaker external position, compared with India, Thailand and the Philippines, we see encouraging signs of improvement. Moreover, optimism on reform has grown following the election of a new president. The central bank is also likely to maintain a tightening bias, further supporting the currency.

Key Risks

Downside

- Substantial delay in Fed rate hikes amidst a deterioration in the US economic outlook
- Significant upside economic surprises in Europe, Japan
- A major rebound in commodity prices could see commodity currencies rally against the USD

Upside

- More aggressive rate hikes than the markets expect and a further deterioration in the global economic outlook

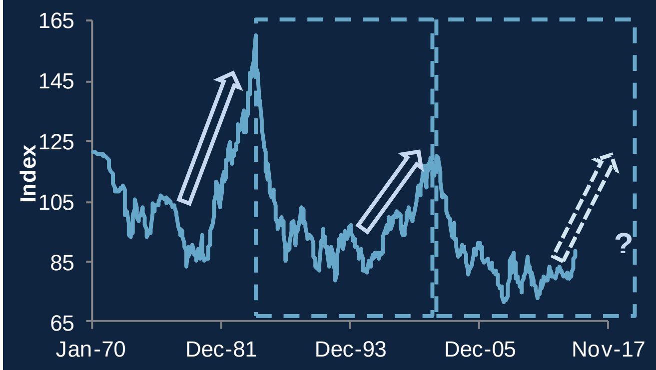
FX – Divergence to dominate (cont'd)

Another secular USD bull rally in the making?

USD secular rallies in the past have been spread out over 5-7 years, with gains of 40-70%. Moreover, USD bull/bear cycles have followed similar patterns in the past. After the recent rally, the USD is 22% higher than trough levels in 2011, which is still modest compared with previous episodes.

Figure 54: USD bull rallies have lasted 5-7 years, with substantial gains

USD Index since 1970



Source: Deutsche Bank, Bloomberg, Standard Chartered Bank

Figure 55: USD bull/bear cycles have followed similar patterns in the past

USD Index between 1985-2001 and 2001-present

Source: Bloomberg, Standard Chartered Bank

Figure 56: Trade weighted indices show USD gains have been mild thus far

Trade weighted indices

Source: Bloomberg, Standard Chartered Bank

USD still cheap relative to history?

Despite its recent gains, the USD still cannot be considered expensive.

- Other major currencies such as the EUR and JPY have appreciated considerably compared with the USD on a trade-weighted (TW) basis
- Despite its recent rally, the USD TW index is still below the JPY and EUR equivalents measured since 2001
- Other valuation measures, including Purchasing Power Parity (PPP), also show that the USD remains inexpensive relative to history

Our outlook

We believe the USD is on a multi-year appreciation path.

- In our opinion, economic and policy divergence with other major economies will drive capital into the US, seeking higher asset returns and productivity
- The US current account deficit will continue to improve owing to lower oil prices
- We believe recent gains in the USD are modest on a TW basis and not significant enough to erode competiveness

Special Focus: Multi-asset income – We carry on…

| Aditya Monappa |

Key themes

- **Diversified income approach remains valid in 2015**. Accommodative monetary policies and a depressed yield environment support the case for a multi-income approach in 2015
- **Stay flexible in fixed income.** Look beyond traditional fixed income at opportunities across the spectrum of bond asset classes. It is critical to widen the income basket to include a range of yield and regional exposure
- **Conviction in equity yield remains.** Dividend yield is still attractive relative to bond yields. The rate hiking cycle might increase volatility, but previous cycles suggest dividend equity outperforms non-dividend paying equity in such environments
- **Don't lose sight of total return.** A likely increase in volatility makes it important for investors to manage their risks. An exposure to non-core income and managing currency/interest rate risks are crucial to protecting total return

Key views

Stick with a diversified income approach in 2015. We continue to live in a world of unprecedented easing of monetary policy. While the US Federal Reserve ended its asset purchase programme in 2014, and the discussion has shifted to the timing of the first US rate hike, the current yield environment remains depressed. In Europe and Japan, policy remains highly accommodative (with further easing likely in Europe), reinforcing the global low-yield environment.

For an income investor, traditional fixed income has historically been the backbone of investing. However, in many cases, assets in this category no longer provide sufficient yield to meet their financial objectives. Conversely, focusing solely on the highest yielding assets could present a serious concentration risk, especially given the run-up we've seen in the past few years. As in 2014, the best approach to generating a sustainable income stream in 2015 continues to be a diversified approach across yield-generating assets.

We firmly believe a multi-income approach should also be part of a portfolio for investors *not* traditionally focused on yield. Given the cyclical environment of depressed yields and ample liquidity, a multi-income strategy should perform on a total return basis as well.

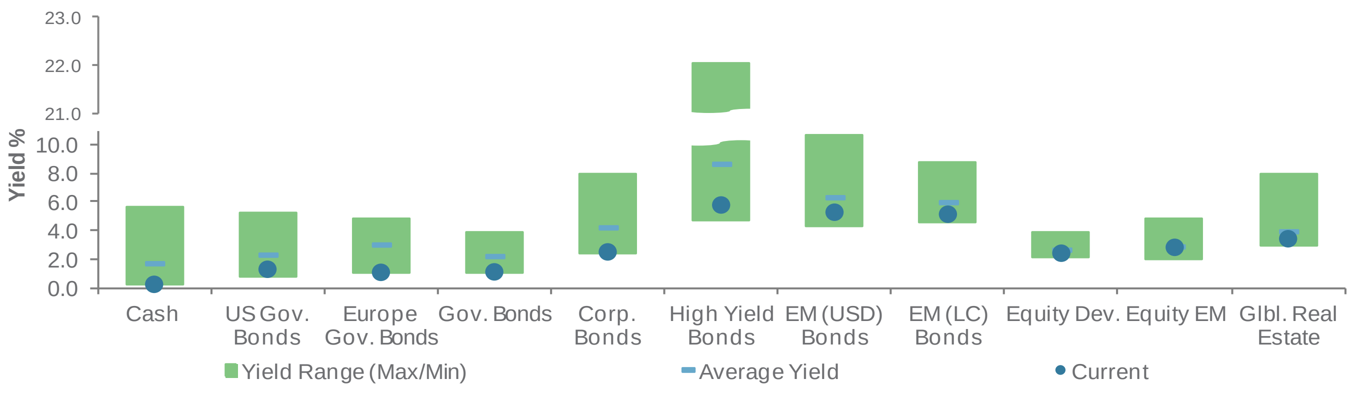
Widen the income basket. We introduce opportunities to incorporate new sources of yield, including local currency bonds (CNY, INR), and a covered call strategy. We also take measures to protect total return by adopting more of a neutral maturity (centred around 5 years) stance to safeguard against the case of rising short-term interest rates in the US.

Refining the multi-income portfolio

Focus on income; don't lose sight of total returns. Our portfolio approach remains focused on balancing two objectives 1) generation of a stable income stream, and 2) protection of income by considering the total return potential of asset classes.

Figure 57: For traditional fixed income, yields remain depressed relative to history

Range of yield for various asset classes (January 2006 – November 2014)



Source: JP Morgan, SPDR, Barclays Capital, Citigroup, FTSE, iShares, MSCI, Bloomberg, Standard Chartered Bank

**For indices used, refer to end note[1] at the conclusion of this section*

Special Focus: Multi-asset income – We carry on… (cont'd)

On the first objective, we look to generate our target yield by exploring three distinct buckets, which include the following:

- Preservation Yield – Accepts a lower yield but provides downside protection during adverse market events
- Maintenance Yield – Forms the bulk of the yield opportunity. A good balance of yield and risk
- Aspirational Yield – An attempt to enhance overall yield while taking on higher, but measured risks

Related to our second objective, we introduce measures to protect total return by mitigating risks arising from interest rates, currency and rising market volatility.

Combining our two objectives in a balanced multi-asset class portfolio framework leads us to the sample portfolio (Figure 60) well diversified across the spectrum of yield that takes advantage of opportunities in Core Fixed Income, Core Equity, and Non-core Income.

Core Fixed Income (43%)

Following the portfolio established in 2014, the core fixed income allocation continues to explore multiple sources of yield within the asset class. We marginally increase the exposure to fixed income to incorporate an allocation to our top picks in the local currency space as well as Asian dollar credit.

CNY and INR top picks in local currency universe. CNY bonds remain one of our preferred asset classes given attractive yields (c.4.8% YTM) and likely currency stability. The low correlation with global equities, as highlighted during previous risk-off environments, such as the May 2013 'taper-tantrum' and the one seen more recently in September-October 2014, suggests these bonds also help to significantly diversify risk.

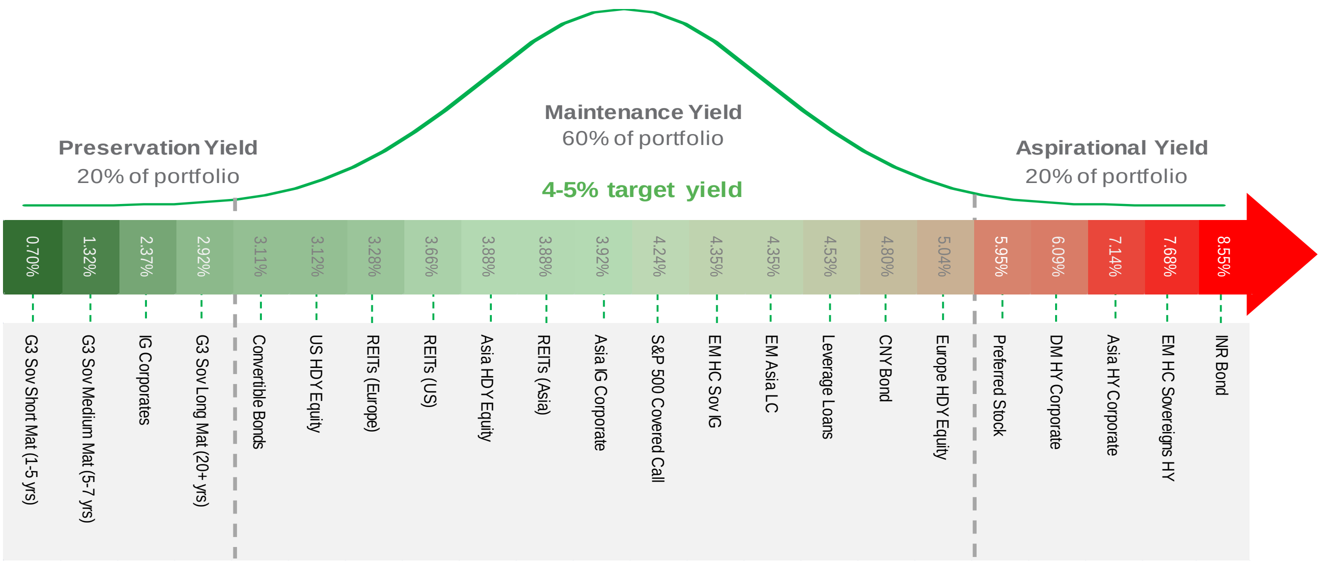
We add a similar-sized position in INR bonds. These bonds offer an attractive yield, while an environment supportive of rate cuts should establish itself over time. Capital gain through lower yields should support our objective of delivering total return in addition to stable income. While exposed to currency fluctuations, currency risks have reduced following substantial accumulation in FX reserves and a sharp fall in the current account deficit.

Managing interest rate risk with an eye on the Fed. Our view that the Fed will begin raising policy rates in 2015 will likely present challenges in areas of our portfolio most exposed from a duration perspective. Ironically, the most pressing challenge is in the yield bucket labelled "Preservation" (Figure 59). Given our expectation of yield-curve flattening, low-yielding and short-duration positions would be most affected relative to higher yielding, mid-duration positions.

To address this, we move our position in G3 sovereigns from the 1-5-year to the 5-7-year maturity bucket. We believe the short end of the yield curve is where we will see the greatest movement, leading to negative return outcomes for the 1-5-year asset class. This expectation also reinforces

Figure 58: Widen the mix – A range of yields on offer beyond core fixed income

Yield to maturity/dividend yield (%)



Source: S&P, JPMorgan, Barclays Capital, Citigroup, MSCI, SPDR, FTSE, IShares, Bloomberg, CRISIL, Standard Chartered Bank

**For indices used, refer to end note[2] at the conclusion of this section*

Special Focus: Multi-asset income – We carry on… (cont'd)

our call for including a range of asset classes beyond the preservation bucket (including maintenance and aspiration) in an income portfolio.

The presence of local currency bonds (CNY and INR) also provides a natural hedge against rising yields, given their low sensitivity to movement in US interest rates.

Playing defence on corporate credit. We prefer corporates over sovereigns in DM, although the relative attractiveness is becoming less clear-cut in the high yield (HY) space.

To address this changing trend, but still capture the income on offer, we reduced our allocation to DM HY in favour of a position in leveraged loans in July 2014. This rebalancing has worked since inception (191bps of relative outperformance for leveraged loans since rebalancing), and we choose to maintain the leveraged loans position in 2015.

The asset class shares a number of characteristics with DM HY. However, incrementally stronger investor protection in the event of a default and a floating rate (lower interest rate risk) arguably brings a more defensive risk profile to the income portfolio.

Core equity (43%)

Our core conviction remains for equity to outperform bonds heading into 2015. While high-dividend equity has been in favour because of the low interest rate environment (thereby impacting valuation) and dividend yields have compressed, we continue to like this asset class as a source of diversified income within the portfolio.

Equity volatility manageable around the rate-hiking cycle. The biggest risk to global equities is potentially higher volatility around the start of the US interest rate-hiking cycle. However, we expect the hikes to be gradual and well advertised, which should limit any short-term volatility. There is also some evidence (albeit based on limited data points) that dividend equity tends to outperform the associated market during rate-hiking cycles.

Figure 60: A sample multi-income allocation

Combination of core and non-core income assets

	Preservation (0 - 3%)*	Maintenance (3 - 5%)*	Aspiration (5 - 8%)*
Core Fixed Income 43%	DM IG Corporates G3 Sovereigns	CNY Bond EM HC IG Leveraged Loans Asia Corporates	INR Bond DM High Yield EM High Yield
Core Equity 43%		DM High Dividend EM High Dividend	
Non-core Income 14%		REITs Convertible Bonds Covered Call	Preferred Stock

**Range of yields for each income basket*
Source: Standard Chartered Bank
For illustrative purpose only. Please refer to the Important Information section at the end of this document for more details.

To mitigate the effects of potential volatility around the rate-hiking cycle, we are introducing a covered call strategy (see 'non-core income' section for more detail), which provides a more defensive stance to our US equity exposure.

Not all sectors are equal in a rate-hiking phase. From a macroeconomic viewpoint, the prospect of rising rates is a signal that an economy is growing.

An improving economy is generally a positive for the stock market. However, while certain sectors should benefit from this environment, others may find themselves challenged.

Figure 59: Estimated interest rate-sensitivity for fixed income assets

Expected total returns (12M) for our core (grey box) and stress (red box) scenarios

	Preservation				Maintenance				Aspiration			
	G3 Sov Short Maturity (1-5 years)	G3 Sov Medium Maturity (5-7 years)	DM IG Corporates	G3 Sov Long Maturity (20+ years)	Asia IG Corporate	EM HC IG	Leveraged Loans	CNY Bond	Global HY	Asia HY Corporates	EM HC HY	INR Bond
Yield to Maturity	0.70%	1.32%	2.37%	2.92%	3.92%	4.35%	4.53%	4.80%	6.09%	7.14%	7.68%	8.55%
Duration*	2.72	5.49	6.38	17.47	5.62	7.77	0.25	3.41	4.26	4.16	5.62	4.31
Change in yield* -1.50%	4.8%	9.6%	11.9%	29.1%	12.4%	16.0%	4.9%	9.9%	12.5%	13.4%	16.1%	15.0%
-1.00%	3.4%	6.8%	8.8%	20.4%	9.5%	12.1%	4.8%	8.2%	10.4%	11.3%	13.3%	12.9%
-0.50%	2.1%	4.1%	5.6%	11.7%	6.7%	8.2%	4.7%	6.5%	8.2%	9.2%	10.5%	10.7%
0.00%	0.7%	1.3%	2.4%	2.9%	3.9%	4.4%	4.5%	4.8%	6.1%	7.1%	7.7%	8.6%
0.50%	-0.7%	-1.4%	-0.8%	-5.8%	1.1%	0.5%	4.4%	3.1%	4.0%	5.1%	4.9%	6.4%
1.00%	-2.0%	-4.2%	-4.0%	-14.6%	-1.7%	-3.4%	4.3%	1.4%	1.8%	3.0%	2.1%	4.2%
1.50%	-3.4%	-6.9%	-7.2%	-23.3%	-4.5%	-7.3%	4.2%	-0.3%	-0.3%	0.9%	-0.8%	2.1%

Source: S&P, JPMorgan, Barclays Capital, Citigroup, MSCI, SPDR, FTSE, IShares, Bloomberg, CRISIL, Standard Chartered Bank
**Duration: an approximate measure of interest rate-sensitivity; Yield: combination of treasury yield and asset class spread; HC: hard currency*
**For indices used, refer to end note[2] at the conclusion of this section*

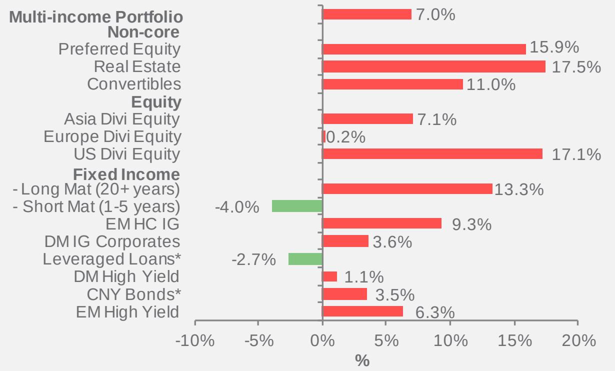
Special Focus: Multi-asset income – We carry on… (cont'd)

2014 – Review of multi-income allocation

Strong performance from multi-income in 2014. The multi-income portfolio we highlighted in our 2014 Outlook has returned 7.0% since inception. While performance has been strong in absolute terms, it looks even better on a risk-adjusted basis when compared against global equities (Sharpe ratio of 2.05 for the multi-income portfolio vs. 1.5 for global equity). Such performance validates a multi-income approach to investing in the unprecedented macroeconomic and policy environment we find ourselves in.

Figure 61: Performance of 2014 multi-income allocation

Inception to date total return performance (%)



Source: S&P, JPMorgan, Barclays Capital, Citigroup, MSCI, SPDR, FTSE, iShares, Bloomberg, Standard Chartered Bank

** Income basket is weighted performance of global high-dividend-yielding equities (50%),fixed income (40%) and non-core income (10%) as described in the 2014 Outlook: A Year to be A.G.I.L.E. and revised in the Global Market Outlook, 25 July 2014.*

**For indices used, refer to end note[2] at the conclusion of this section*

Diversity – The best medicine in fixed income. Within fixed income, a diversified approach to income generation has been justified in 2014. The strongest contributors to fixed income performance have been the EM investment grade (IG) and HY sovereign asset classes. We also included a position in long-maturity sovereign bonds on the expectation of the yield curve flattening. Although it accounted for only a small allocation within the portfolio, it has performed well returning 13.3% on an inception to date basis.

Our mid-year rebalancing, which reduced DM HY in favour of a more defensive exposure in leveraged loans and CNY bonds, proved positive. China local bonds delivered +3.5% and leveraged loans -2.7% compared with DM HY, which returned -4.6% in absolute returns over the period since we rebalanced.

Non-core income boosts returns. Looking at individual asset classes, we have seen strong performance from equity and non-core sleeves of the portfolio. While we suggested non-core assets for some of their diversifying characteristics, the absolute returns delivered by these asset classes have positively surprised us.

US dividend equity delivers, while Europe underperforms. Within equity, we had expressed a preference for US and Europe high-dividend equity over Asia. While the US has delivered on this conviction, European equities have underperformed other regions. Admittedly, a large proportion of this underperformance can be attributed to currency weakness. Our Europe high-dividend equity index returned 0.17% in USD terms versus 11.10% in EUR terms.

Special Focus: Multi-asset income – We carry on… (cont'd)

Figure 62: Performance of high dividend equity in the 6 months and 12 months preceding and following the Fed rate hike

Total return performance (%)

Asset Class	Year	T-12	T-6	T+6	T+12
US HDY Equity	1999		7.6%	-11.7%	-18.6%
	2004	12.0%	1.4%	8.5%	9.2%
EU HDY Equity	1999		8.1%	5.7%	-2.0%
	2004	27.0%	4.7%	19.5%	18.2%
Asia HDY Equity	1999		35.3%	-0.9%	-13.6%
	2004	32.6%	-2.1%	24.3%	30.1%

Source: MSCI, Bloomberg, Standard Chartered Bank

- The beneficiaries – Technology companies could be beneficiaries of this phase, as they tend to carry a low debt load and have a stable fixed-capital structure. Information technology is the largest component of our US dividend equity index. Financials (those with balance sheets less sensitive to short-term rates) could also prove winners during this cycle.
- The laggards – Debt-laden sectors could prove to be laggards. An investor should carefully assess the yield available in these high-debt sectors in the context of capital loss.

FX notwithstanding, Europe's equity yield is attractive. European equity offers an attractive dividend yield relative to the US. Valuation metrics also support Europe compared with other regions. While the macroeconomic picture presents challenges, there are a number of quality companies in Europe that derive revenues from overseas and are less affected by the domestic environment. Financials, the largest sector in our European dividend benchmark, could outperform given fewer capital needs and low payout ratios.

While we are attracted by the yield, currency weakness could present a challenge to total return in our USD portfolio. As a result, we adopt a currency-hedged position in European dividend equity.

Non-core income (14%)

We marginally increase our allocation to non-core income with the introduction of a new asset class (covered calls), and an ongoing conviction around the value of this unique group of income-generating assets.

Non-core, but still important. Traditional assets such as fixed income and equity should form the bulk of the income portfolio. However, non-core income, which includes convertible bonds, REITs, preferred equity and covered calls, should not be overlooked. An appropriate allocation to non-core income (c.14% of our model allocation) is an essential part of the multi-income approach.

While serving as additional sources of income, the real value of these assets lies in their ability to provide diversification within the portfolio. Sometimes referred to as 'hybrid securities', they contain characteristics of both equity and fixed income securities. This unique combination results in a lower correlation to pure equity or fixed income risk.

Figure 63: Suggested weights for 2015 multi-income allocation

All figures are in percentages

Asset Class	Sub-Asset Class	Weight
Fixed Income	EM High Yield	4.0%
	CNY bonds	3.0%
	INR bonds	3.0%
	DM High Yield	5.0%
	Leveraged loans	2.5%
	Asia Corporates	2.0%
	DM IG Corporates	8.0%
	EM HC IG	7.5%
	G3 Sovereigns	8.0%
	- Mid Mat (5-7 years)	6.0%
	- Long Mat (20+ years)	2.0%
Sub-total		**43.0%**
Equity	US Divi Equity	14.5%
	Europe Divi Equity (hedged)	15.0%
	Asia Divi Equity	13.5%
Sub-total		**43.0%**
	Covered Call Strategy	3.0%
Non-Core	Convertibles	3.6%
	Real Estate	3.6%
	Preferred Equity	3.6%
Sub-total		**13.9%**
Total	**Multi-Income Portfolio**	**100%**

Source: Standard Chartered Bank

**For indices used, refer to end note[2] at the conclusion of this section*

Covered call strategy to bolster income in a rising volatility environment. While we are still positive on global equities, we believe the probability of larger drawdowns (relative to recent history) over the coming year has increased. This is in contrast to the past few years when the volatility environment was quite benign. The potential change in the risk environment leads us to introduce a position in a covered call strategy. The strategy focuses on generating additional income through selling (writing) options on eligible equities. It is being classified as non-core income as it provides a bit of downside protection by virtue of the option premium. This effectively gives it a different correlation profile versus the long-only exposure to global equities.

Special Focus: Multi-asset income – We carry on… (cont'd)

Key risks

Timing and pace of rate hike by the Fed. An earlier-than or faster-than-expected pace of Fed tightening could trigger a sharp rise in yields. Given our suggested change to a neutral maturity profile for fixed income, we could witness a 'taper-tantrum-style' reaction in these assets.

For equity assets, this repositioning of market expectations could imply a sharp increase in volatility. While a rate hike is generally positive for equities over a longer horizon, the element of surprise could trigger sharp short-term pullbacks in equity markets.

Disorderly sell-down of higher yielding assets. A number of higher yielding assets in the credit space have seen a significant run-up in valuation given the current low-yield environment. In the case of rising volatility, a disorderly sell-off in these assets remains a risk.

Underperformance of covered call strategy. While yield, rather than capital gain, is the primary objective of an income investor, it is worth reminding ourselves that a covered call strategy will underperform in a fast-rising market. This underperformance would be compounded by the current low-volatility environment. The existence of precisely these conditions has led the underperformance of covered call strategies over the past few years.

Conclusion

A diversified multi-income approach delivered strong performance in 2014. We believe conditions supporting the success of such a strategy should persist in 2015. Globally, we continue to see ample liquidity and yield levels remaining depressed versus history for traditional fixed income. However, the prospect of a change in the benign rate environment (and associated market volatility) that we've experienced over the past few years should prompt investors to adjust their multi-income portfolio in 2015.

For investors new to multi-income, we suggest our model allocation as a basis for building exposure to diversified income assets across equity, fixed income and non-core income. It is worth reminding investors that regional diversification is as important as asset class diversification. While a basket of diversified income assets focused on a single region might have worked well in years past, we believe a globally diversified income basket is prudent going forward.

For existing investors, a rational approach might involve diversifying the investment opportunity set to incorporate new sources of yield, including local currency bonds (CNY, INR), and a covered call strategy. It also involves the protection of total return by adopting more of a neutral maturity (centred around 5 years) stance to safeguard against the case of rising short-term interest rates in the US. Adopting such a well-rounded approach should provide a stable income stream, while protecting total return against key risks arising from interest rates, currency or rising market volatility.

End note:

[1]Indices are Citigroup WGBI All Maturities Yield to Maturity USD, Barclays Global Agg Corporate Yield to Worst, Barlcays Global High Yield Corporate Yield to Worst, J.P Morgan EMBI Global Diversified Blended Yield, Barclays EM Local Currency Government Yield to Worst, Barclays World Inflation Linked Bonds Avg Yield Annual, MSCI World Index, MSCI Emerging Markets Index, FTSE EPRA/NAREIT Developed Index Net TRI USD.

[2]Indices are Barclays Global HY TR unh USD, JPMorgan EMBI HY, Citigroup WBIG Corp USD, JPMorgan EMBI IG, Citigroup WBIG Sovereigns, Citigroup WBIG 1-5y USD, Citigroup WBIG 5-7y USD, Citigroup WBIG 20+y USD, MSCI North America High Divi TR, MSCI Europe High Divi USD, MSCI EM Asia High Divi TR, SPDR Barclays convertible ETF, FTSE NAREIT global index TR USD, IShares preferred stock ETF, S&P/Citic China Corporate Bond, S&P/LSTA US Leveraged loan 100 index, S&P 500 Covered Call index, CRISIL Composite Bond Fund Index, JP Morgan EMBI Global Diversified, FTSE EPRA/NAREIT Developed North America REITs TR Index, FTSE EPRA/NAREIT Europe REITs TR Index, FTSE EPRA/NAREIT Asia REITs TR Index, JACI Investment Grade Corporates, JACI Non-Investment Grade Corporates, Barclays EM Local Government Asia

Impact of rising rates on asset markets

| Clive McDonnell |

Key Themes

- Timing and pace of US rate increases will determine impact on asset markets
- Comparison of 1993/1994/2004 rate cycle leads us to conclude the greatest lessons for markets are from the 2004 cycle
- For equity investors, DM equities are expected to post the best returns
- In fixed income markets, we expect the US yield curves to flatten (with short-term yields rising faster than long-term yields) and current tight spreads to cap returns

Impact of rising rates on asset markets

Focusing on prior rate-hiking cycles in 1994, 1999 or 2004, two issues stand out in terms of similarities and differences: 1) Fed communication: Clear as in the case of 1999 and 2004, or absent as in 1994; 2) The pace of rate hikes – slow and steady like in 1999 and 2004, or gradually increasing in size as was the case in 1994. Looking forward, we believe the US Federal Reserve will continue to communicate to the market its intentions on the timing of the first rate hike. In terms of the pace, we believe they will be slow and measured. Therefore, we see more similarities between the current cycle and 2004. This has important implications for our views on the outlook for key asset classes.

In our view, 1999 was a short cycle with few similarities to the current scenario. Rather, the decision is 1994 versus 2004. We believe that the current cycle has the greatest similarities with 2004, and we use this as the reference to gauge asset market performance in 2015. Comparisons of key data points in the current and prior cycle is highlighted below.

Figure 64: Fed rate cycle comparison

Valuations & real interest rates in 2014 are similar to 2004

	1994	1999	2004	2014
Inflation	2.5%	2.0%	3.3%	1.7%
Interest rates	3.00%	4.75%	1.25%	0.00%
Real interest rates	0.5%	2.8%	-2.1%	-1.7%
S&P 500 P/E	20	29	16	16
10-year Treasury bonds	5.9%	6.0%	4.7%	2.3%

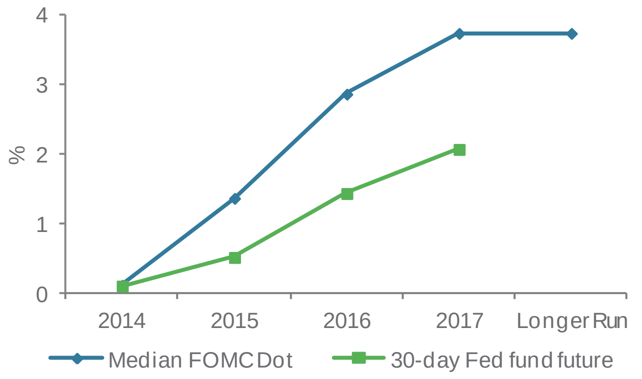
Source: Bloomberg, data refers to values at time of rate hike

The role of Fed guidance. Aside from macro and market similarities between 2004 and those currently prevailing, an additional factor that leads us to conclude that the market impact of the next rate-hiking cycle has greater similarity to 2004 relative to 1994 is the role of Fed guidance. The February 1994 rate hike was a surprise for the market; this contrasts with the 2004 cycle that saw the Fed give adequate guidance to the market of its intentions with regard to rates. In the rate-hiking cycle likely to start in 2015, the Fed has provided guidance to the market via individual board member views on the timing of the first hike.

There is nevertheless a risk that there could be a repeat of the 1994 surprise the Fed sprang on markets. Currently, investor expectations for the timing and pace of rate hikes is later and slower compared to the average stated by the Fed's Governors, which is used by the market to interpret the future path of rates. Given this divergence, there is a risk that the Fed may raise rates sooner and at a faster pace than the market expects. This would trigger a knee-jerk reaction in the market and could result in negative returns for Asia 3/6/9/12 months after the rate hike, as was the case in 1994. The US also witnessed negative returns 3/6/9 months after the surprise rate hike in 1994.

Figure 65: Market vs. Fed interest rate expectations

Market expectations for interest rates are below what the Fed has provided



Source: Bloomberg, Standard Chartered Bank

There is also the possibility of a positive outcome from this divergence of views. The Fed could move to the markets a more dovish assumption on the timing and/or the pace of rate hikes. This would lengthen the period before the first rate hike and boost returns for investors.

Impact of rising rates on asset markets (cont'd)

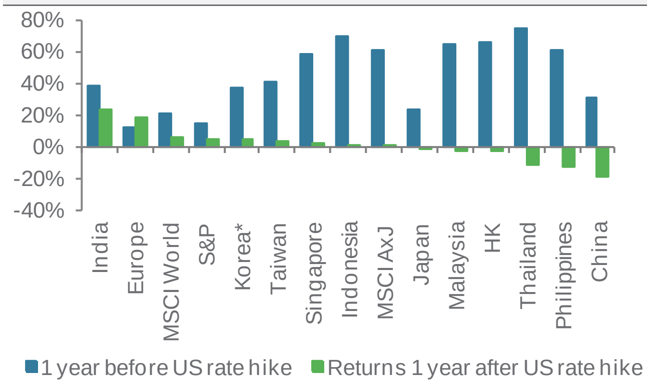
Equities – Comparisons with prior rate-hiking cycles

While we believe the forthcoming rate-hiking cycle will bear the greatest similarity to 2004, it is prudent to look at average returns from the past three rate-tightening cycles in terms of takeaways for investors:

- DM equities perform better prior to the rate hike, compared with after it. In the three months after the first rate hike, returns are negative, but turn positive 6/9/12 months post the hike
- Asian markets perform well prior to a rate hike, but struggle to post consistent positive returns after it
- For 12 months after the Fed's first rate hike, markets in Asia ex-Japan underperform their DM peers by an average of 5%
- There are individual country exceptions to the post-rate hike performance trend: India, Taiwan and South Korea saw positive returns 6/9/12 months following the 2004 US rate hike

Figure 66: Returns in Asia are lower post rate hikes

Returns in equity markets after Fed rate hikes



*Source: Bloomberg, Standard Chartered , * excludes 1999 cycle*

Within DM, a similar pattern exists of bigger returns before the rate compared to after the rate hikes. On average, during the past three rate-tightening cycles, the US has posted returns of 14% for 12 months before the rate hike and 5% after the hike. Europe stands out as an anomaly – returns there tend to be strongest after rate hikes, averaging 18% over the past three cycles. However, these returns are in USD and were enhanced by significant dollar weakness in 1993 and 2004, which boosted returns from European markets in USD terms. The current trend is for the opposite, ie, a stronger dollar; hence, returns from Europe will likely be undermined in USD terms. This is why we recommend currency-hedged exposure to Europe in 2015.

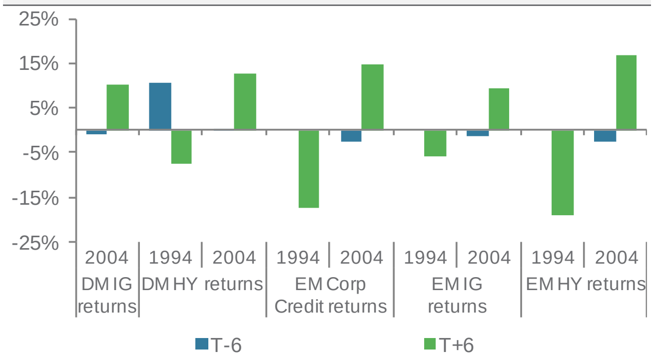
For investors in Asia, the drivers of returns in markets that outperformed can be divided between those that are independent of the US cycle (eg, India), and those that are highly dependent (eg, Taiwan and Korea). Looking ahead, India stands out as the market with the greatest propensity to outperform peers after the rate hike, as its fundamentals are improving and the market is not closely linked with the US economy.

Fixed income – Tight spreads to reduce returns

Based on our analysis of historical data and assessment of current markets, we believe that fixed income returns are likely to be more similar to those in the 2004 cycle, though returns are unlikely to be as high owing to lower spreads and coupons.

Figure 67: DM HY better positioned

Bond market returns around Fed rate hikes



Source: Bloomberg, Standard Chartered Bank

The Fed's hiking cycles in 1994 and 2004 were contrasting examples of how the markets were positioned. We believe there are 5 key takeaways from these cycles:

1. Market expectations and the pace of hiking are important.
2. Curve flattening occurs around rate hikes; ie, short-term bond yields tend to rise faster than long-term yields.
3. The levels of and changes in US Treasury yields before and after the hikes are a significant driver of corporate credit returns
4. HY is better positioned within DM credit
5. History does not help in evaluating EM credit

Market expectation and pace of hiking are important. The US Fed hiked rates by 3.0% and 2.25% in the 12 months following the rate hikes in 1994 and 2004, respectively. This affected absolute yields as well as the shape of the yield curve.

Impact of rising rates on asset markets (cont'd)

However, barring a much stronger-than-expected pick-up in inflation and growth in the US, we believe that the Fed will hike rates at a more gradual pace this time. This lowers the probability of a significant increase in yields in the months following the rate hike. While it is unlikely that the Fed would want to surprise the markets, a 'taper-tantrum' scenario, when Fed chairman Ben Bernanke surprised markets by raising the issue of ending quantitative easing, cannot be ruled out.

Curve-flattening occurs around rate hikes. While the flattening of the yield curve (ie, a smaller spread between long and short yields) is common after the hikes, the flattening before the hikes in the 2004 cycle can largely be attributed to the market expectations of a rate hike owing to active communication by the Fed.

While the yield curve has moderately flattened since start of 2014, it is still steep from a historical perspective. Given this and the Fed's efforts at forward guidance, a further flattening appears likely. See our bonds section on pages 15-19 for more details.

The level and changes in US Treasury yields before and after the hike were a significant driver of corporate credit returns. The negative returns across the various credit markets, after the hike in 1994 and before the one in 2004 in both DMs and EMs, were largely driven by the sharp rise in US Treasury yields, which led to a fall in bond prices. In contrast, positive returns after the 2004 hike were helped by declining Treasury yields as well as spread compression.

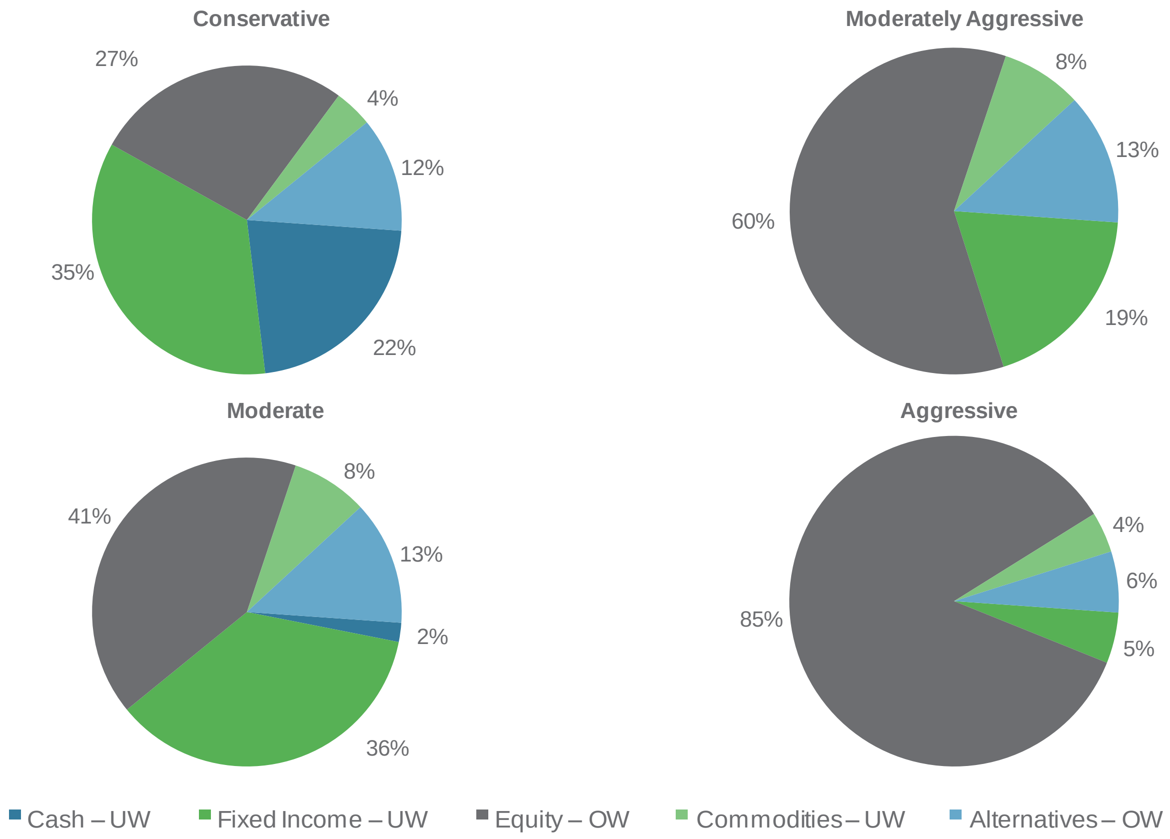
Looking forward, the lower level of yields compared with previous cycles limits the scope for yields to fall. However, given the Fed's communication during this cycle, we believe there is a higher likelihood of markets following the pattern that occurred in 2004.

HY credit is better positioned in DM credit. In 2004, both DM Investment Grade (IG) and DM HY credit generated positive returns after the hike. However, we feel that in the coming year, DM HY credit is better positioned. Spread levels in HY credit are currently higher than they were in 2004. This creates greater scope for spread compression which, along with higher coupons, provides greater protection against rising rates. The key difference with prior cycles, however, is the sizeable flows that have already gone into HY given low policy rates, and mildly deteriorating credit quality. We are neutral high yield in both DM and EM.

History does not help in evaluating EM credit. In 2004, EM credit indices witnessed sharp spread compression that helped generate strong returns. However, the EM credit landscape has changed materially since 2004.

IG credit forms a much greater proportion of the credit market than it did in 2004. Consequently, spreads and the coupons today are much lower than in 2004. However, the anticipated slower hiking cycle should offset for some of these changes in terms of the total returns for EM credit.

Asset allocation summary



	Conservative	Moderate	Moderately Aggressive	Aggressive
Cash – UW	22	2	0	0
Fixed Income – UW	35	36	19	5
Equity – OW	27	41	60	85
Commodities – UW	4	8	8	4
Alternatives – OW	12	13	13	6

Asset Class	Region	View vs. SAA	Conservative	Moderate	Moderately Aggressive	Aggressive
Cash & Cash Equivalents	USD Cash	UW	22	2	0	0
Investment Grade	IG Developed World	UW	23	16	0	0
	IG Emerging World	OW	6	11	6	0
High Yield	HY Developed World	N	2	5	5	2
	HY Emerging World	N	4	4	8	3
Developed Market Equity	North America	OW	9	13	18	26
	Europe (fx-hedged)	OW	9	11	16	23
	Japan (fx-hedged)	OW	0	3	6	7
	Asia ex-Japan	UW	7	12	17	24
Emerging Market Equity	Other EM	UW	2	2	3	5
Commodities	Commodities	UW	4	8	8	4
Alternatives		OW	12	13	13	6

All figures in percentages

For illustrative purposes only. Please refer to the Important Information section at the end of this document for more details.

Source: Standard Chartered Bank

Consensus forecasts

	Consensus Forecasts			
Real GDP (%, y/y)	**2014E**	**Our Bias**	**2015E**	**Our Bias**
US	2.20	→	3.00	→
Euro area	0.80	→	1.20	↗
Japan	0.90	→	1.00	↗
China	7.40	→	7.00	→

Inflation (%, y/y)	2014E	Our Bias	2015E	Our Bias
US	1.70	→	1.70	→
Euro area	0.50	→	0.90	↘
Japan	2.80	→	1.70	→
China	2.10	→	2.40	↘

Policy rate (%)	1H 2015	Our Bias	2H 2015	Our Bias
US	0.25-0.50	→	0.75-1.00	→
Euro area	0.05	→	0.05	→
Japan	0.10	→	0.10	→
China	5.25	→	5.25	↘

FX	1H 2015	Our Bias	2H 2015	Our Bias
EUR/USD	1.20	↘	1.19	↘
GBP/USD	1.56	→	1.55	→
USD/CHF	1.01	↗	1.03	↗
AUD/USD	0.82	↘	0.81	↘
NZD/USD	0.75	→	0.73	→
USD/CAD	1.15	→	1.16	→
USD/JPY	120	↗	124	↗
USD/CNY	6.10	→	6.03	→
USD/SGD	1.32	→	1.32	→
USD/INR	62.40	↘	62.50	↘
USD/IDR	12,412	→	12,500	→
USD/THB	33.1	→	33.6	→
USD/PHP	45.3	→	45.5	→

Legend

↑Significantly higher bias; ↗Moderately higher bias; →No strong bias; ↘Moderately lower bias; ↓Significantly lower bias

Source: Bloomberg, Standard Chartered Bank

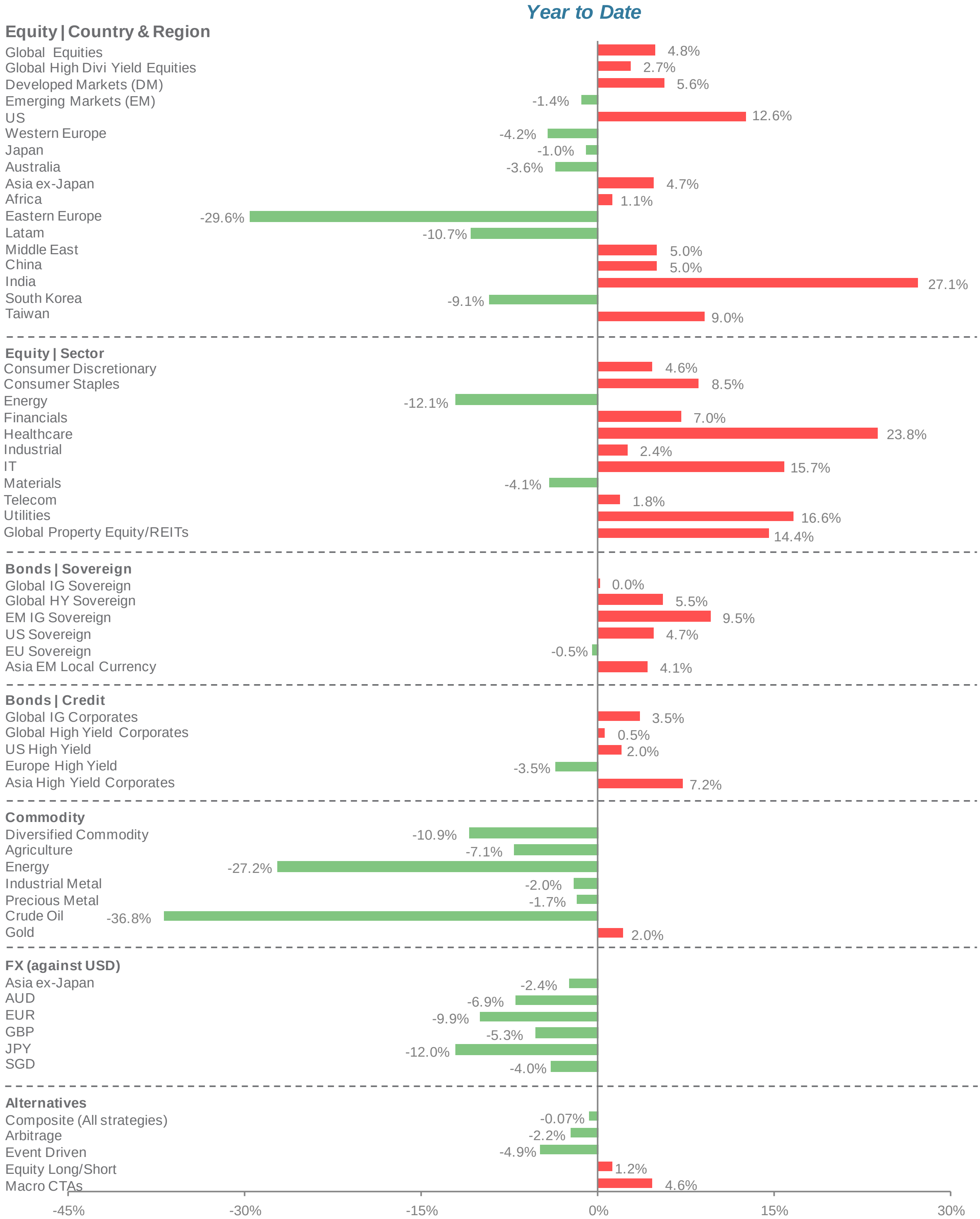
2015 key events

Month	Country/Region	Event
December 17, 2014	US	**FOMC meeting**
Q1 2015	Egypt	**Parliamentary election**
January 15	EU	**Opinion by European Court of Justice on the OMT case**
January 22	EU	**ECB meeting**
January 29	US	**FOMC meeting**
Jan-Feb	Greece	**Presidential election**
February	EU	**EU Commission publishes winter economic forecast**
March	The Netherlands	**Upper House election**
March 5	EU	**ECB meeting**
March 15	US	**Debt ceiling expiration**
March 19	US	**FOMC meeting**
April 1	Malaysia	**GST implementation**
April 15	EU	**ECB meeting**
April 17-19	US	**World Bank/IMF Annual Spring Meetings**
April 30	U.S.	**FOMC meeting**
May 7	U.K.	**General election**
May	Spain	**Regional elections**
June 3	EU	**ECB meeting**
June 13	Turkey	**General election**
June 18	US	**FOMC meeting**
July 16	EU	**ECB meeting**
July 30	US	**FOMC meeting**
July 31	EU/Russia	**Sanctions review**
September 3	EU	**ECB meeting**
September 14	Denmark	**General election**
September 18	US	**FOMC meeting**
October	Poland	**General election**
October	Switzerland	**General election**
October	Canada	**General election**
October	Argentina	**Presidential election**
October	Portugal	**General election**
October	Thailand	**General election**
October 22	EU	**ECB meeting**
October 29	US	**FOMC meeting**
December	Spain	**General election**
December 3	EU	**ECB meeting**
December 17	US	**FOMC meeting**
Dec 31	ASEAN	**ASEAN Economic Community launch**

Source: Bank Credit Analyst, Bloomberg, Standard Chartered

Market performance summary

Figure 68: Market Performance Summary (YTD)*



** All performance shown in USD terms, unless otherwise stated.*

**YTD performance data from 31 December 2013 to 09 December 2014*

Sources: MSCI, JP Morgan, Barclays Capital, Citigroup, Dow Jones, HFRX, FTSE, Bloomberg, Standard Chartered

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