

Presented by
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Asia

Presented on
May 25, 2011

Investing in a Risk-On Risk-Off World: A New Paradigm

The 'risk on – risk off' (RORO) index, a proxy for correlation across asset classes, has rebounded and is at a historical high: implying that "risk on/risk off" pattern to persist and may be amplified

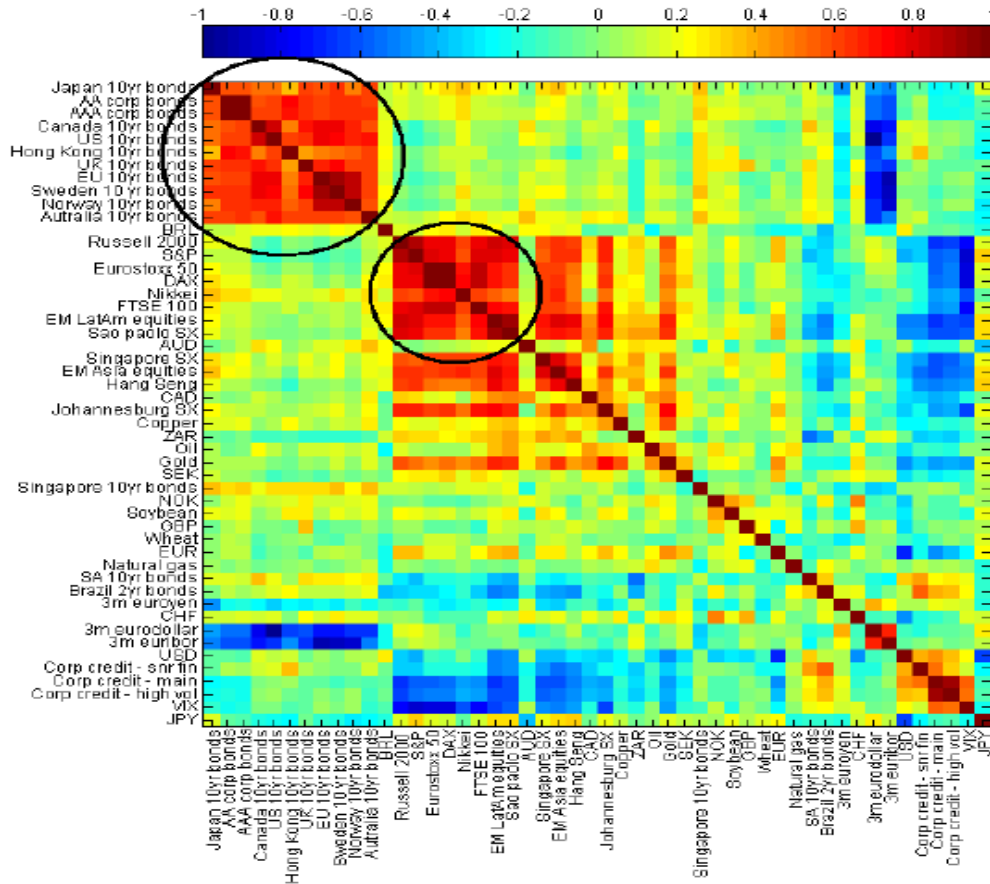
The Risk On – Risk Off (RORO) index remains close to historical highs



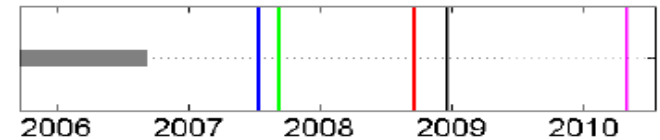
Source: HSBC Global Research, Bloomberg, March 2011

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"Normal" market correlation



23 Sep 2005 - 01-Sep-2006

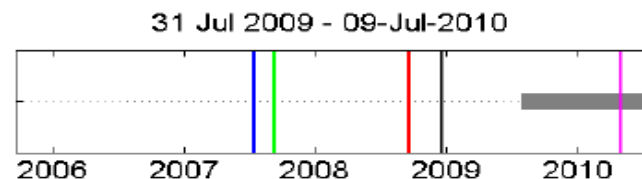
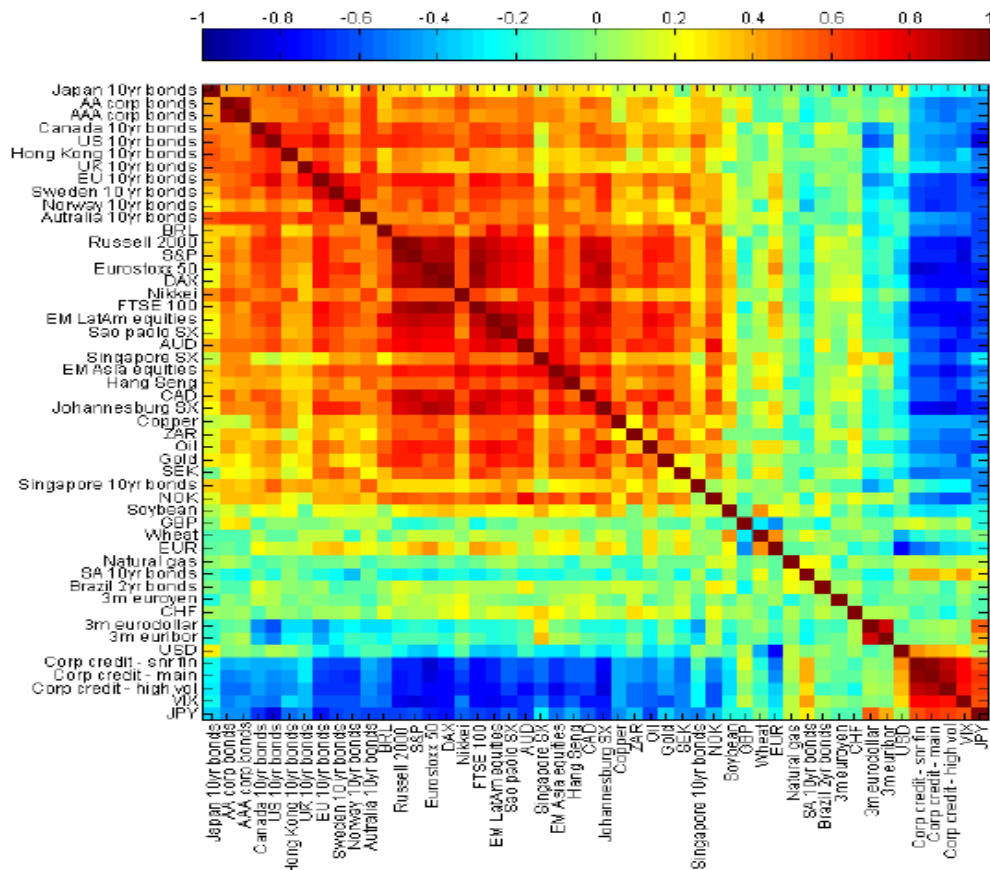


- Rolling time window
- Bermanke sub-prime warning
- Run on Northern Rock
- Lehman files for bankruptcy
- Fed cuts rates to historical low
- Greek fiscal crisis intensifies

Source: HSBC Global Markets, Bloomberg, Oct 2010

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The current state of play – high correlations persist



- Rolling time window
- Bernanke sub-prime warning
- Run on Northern Rock
- Lehman files for bankruptcy
- Fed cuts rates to historical low
- Greek fiscal crisis intensifies

Source: HSBC Global Markets, Bloomberg, Oct 2010

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A Buy-And-Hold Strategy May Prove To Be Dangerous In A Risk-On/Risk Off Environment



Source: Bloomberg, Apr 2011

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What went up together (gold, stocks, AUD and copper) came down together as sub-prime crisis became the Global Financial Crisis



Source: Bloomberg, April 2011

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Buy and hold as a passive, index-based investor doesn't necessarily work: some examples

- 2009 ended a decade (1999-2009) where for the first time in history, the S&P 500 index finished with a loss.
- 2009 was the only time the Dow Jones ended a 10-year period with a loss since the great depression (1930-1940).
- So, does this mean that Warren Buffett's buy and hold theory for compounding wealth is dead?
- Does this mean that the theory on buying the index for positive returns in the long term does not work?

Source: HSBC Private Bank, April 2011

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DJIA return from 1967 to 1980 excluding dividends was flat

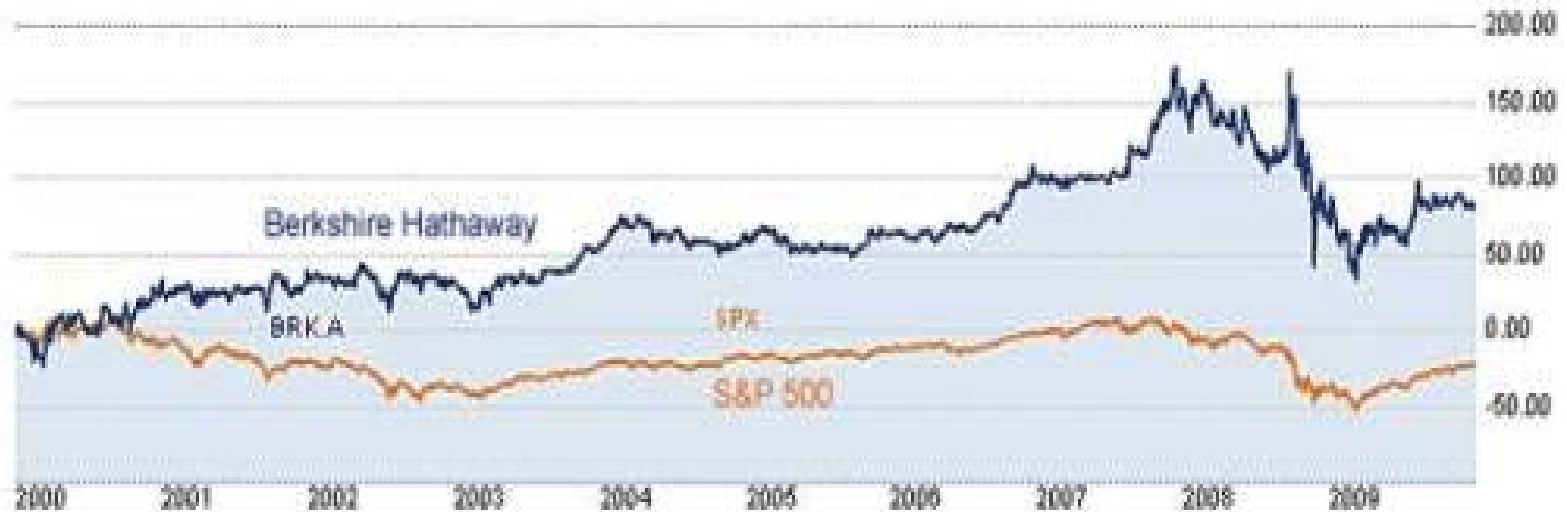


Source: Bloomberg, April 2011

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Identifying quality stocks at an attractive valuation is key: Buffett bought beaten down stocks post Dot.com & during Great Financial Crisis (GFC)

- Shares of Warren Buffett's Berkshire Hathaway far outperformed the benchmark S&P 500 stock index over the 1999-2009 decade.
- Buffett achieved a gain of 76.8% while the S&P lost 24.1% over the same ten year period.



Source: Bloomberg, April 2011

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Buffett shows research and market timing are key to investing

- Other factors to consider when investing include currency trends
- Currency moves can negate or enhance returns for offshore investments

USD/JPY vs. Nikkei 225: Weaker yen aids stocks but erodes gains in USD terms



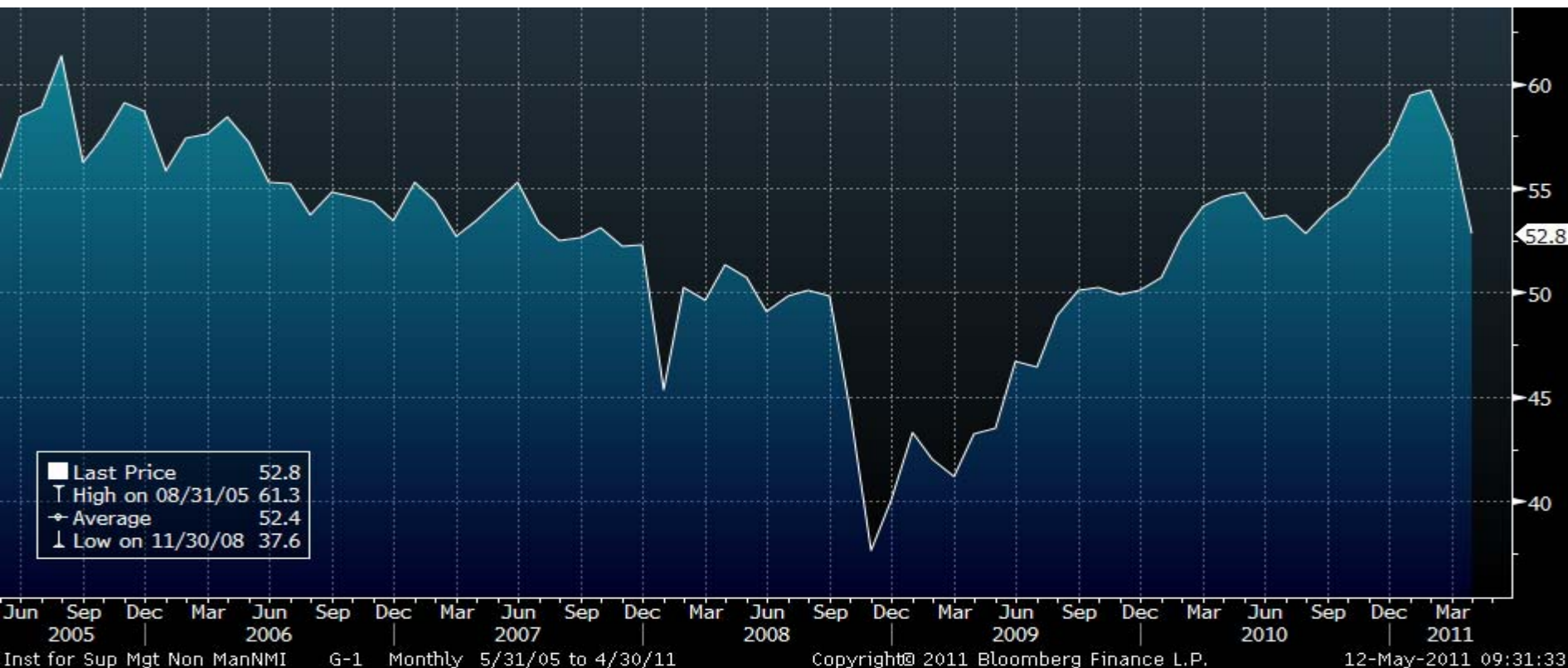
Source: Bloomberg, April 2011

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Global Equity Market Outlook: Broadly Positive Underpinned By Maintenance Of Expanded Fed Balance Sheet After QE2 Ends

US ISM non-manufacturing (services represents 2/3 of US GDP) took a sharp dip to 52.8 in March; services will likely remain weak for a while

ISM Non-Manufacturing

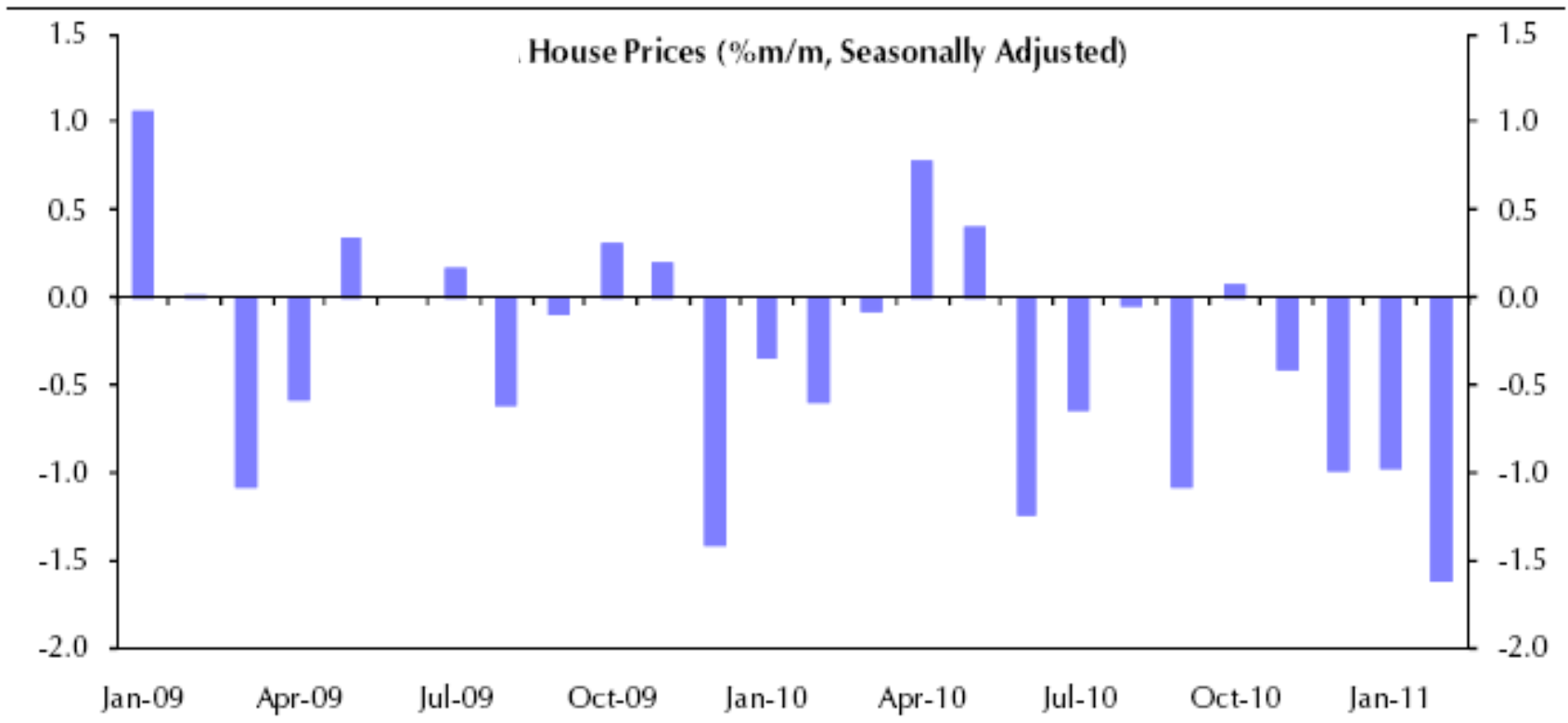


Source: Bloomberg, May 2011

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US house price declines accelerating

US House Price

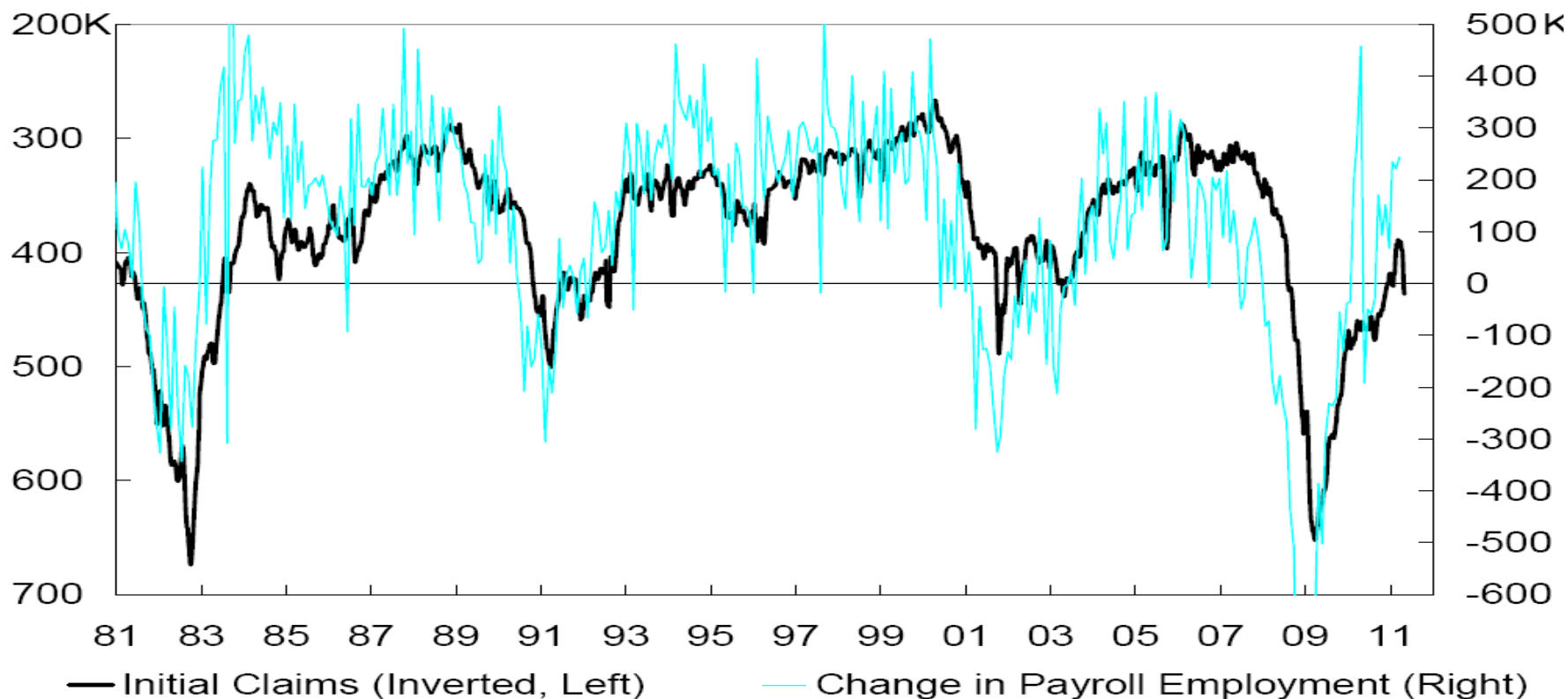


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US unemployment insurance claims struggling to drop below 400k level

Initial Unemployment Insurance Claims (4 week average) vs change in non-farm employment (thousands)

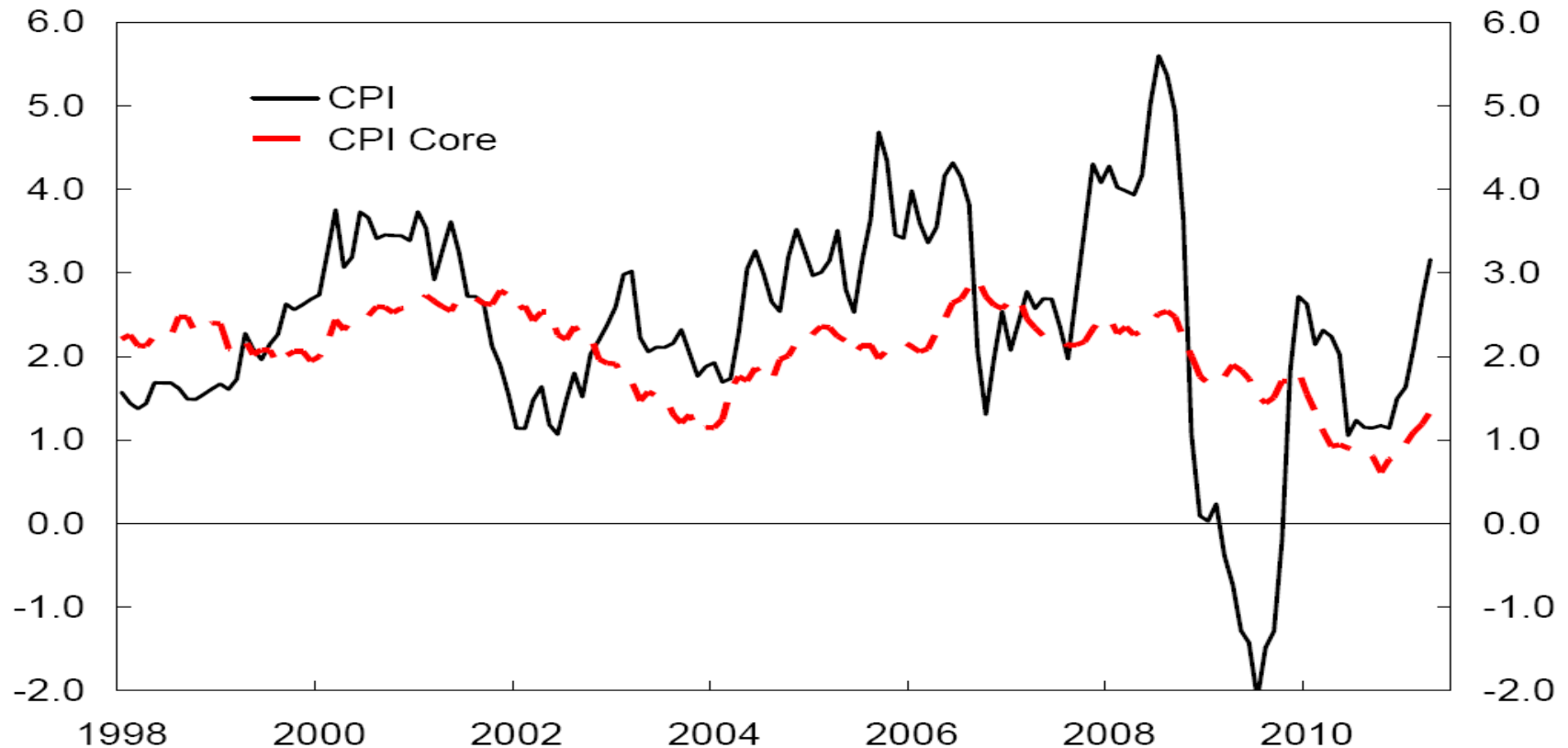


Source: Bloomberg, May 2011

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Core inflation has barely risen: the Fed will stay on 'hold' till end-2011

US Consumer Price Index

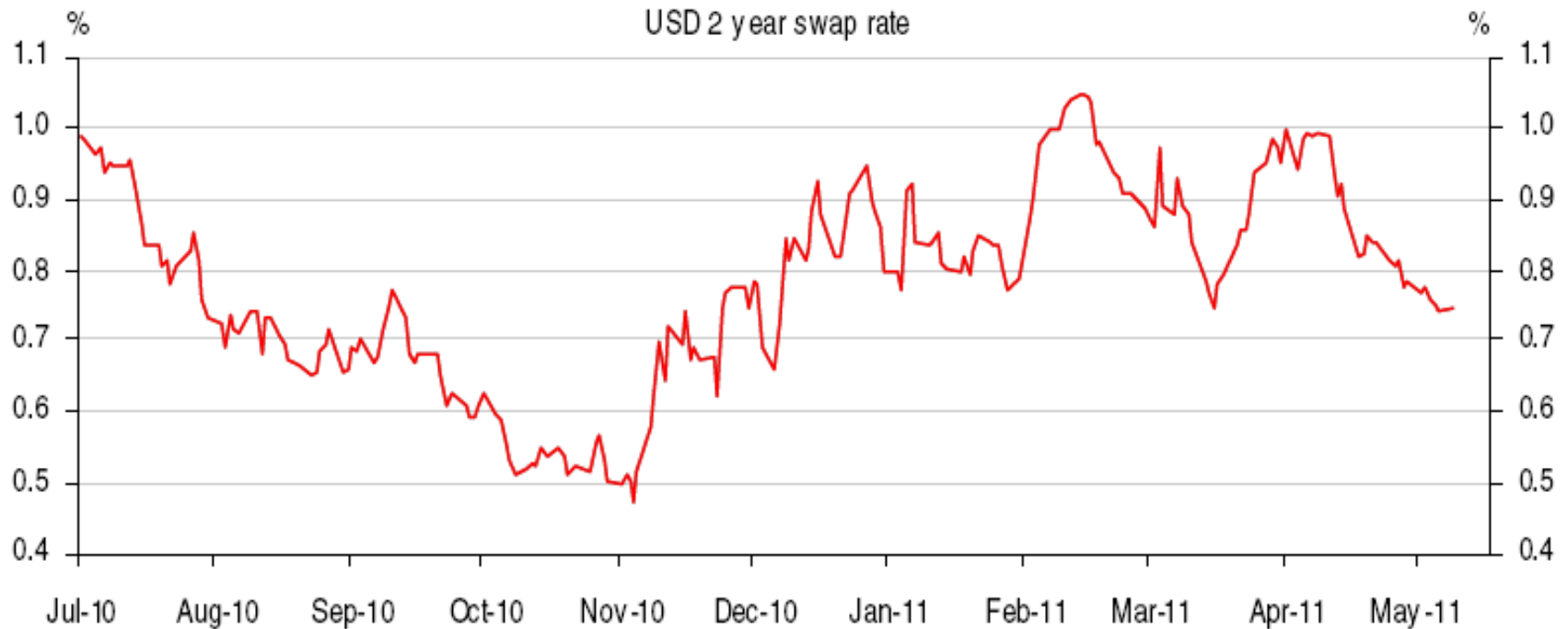


Source: Bloomberg, May 2011

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...pushing short-term US interest rates lower...

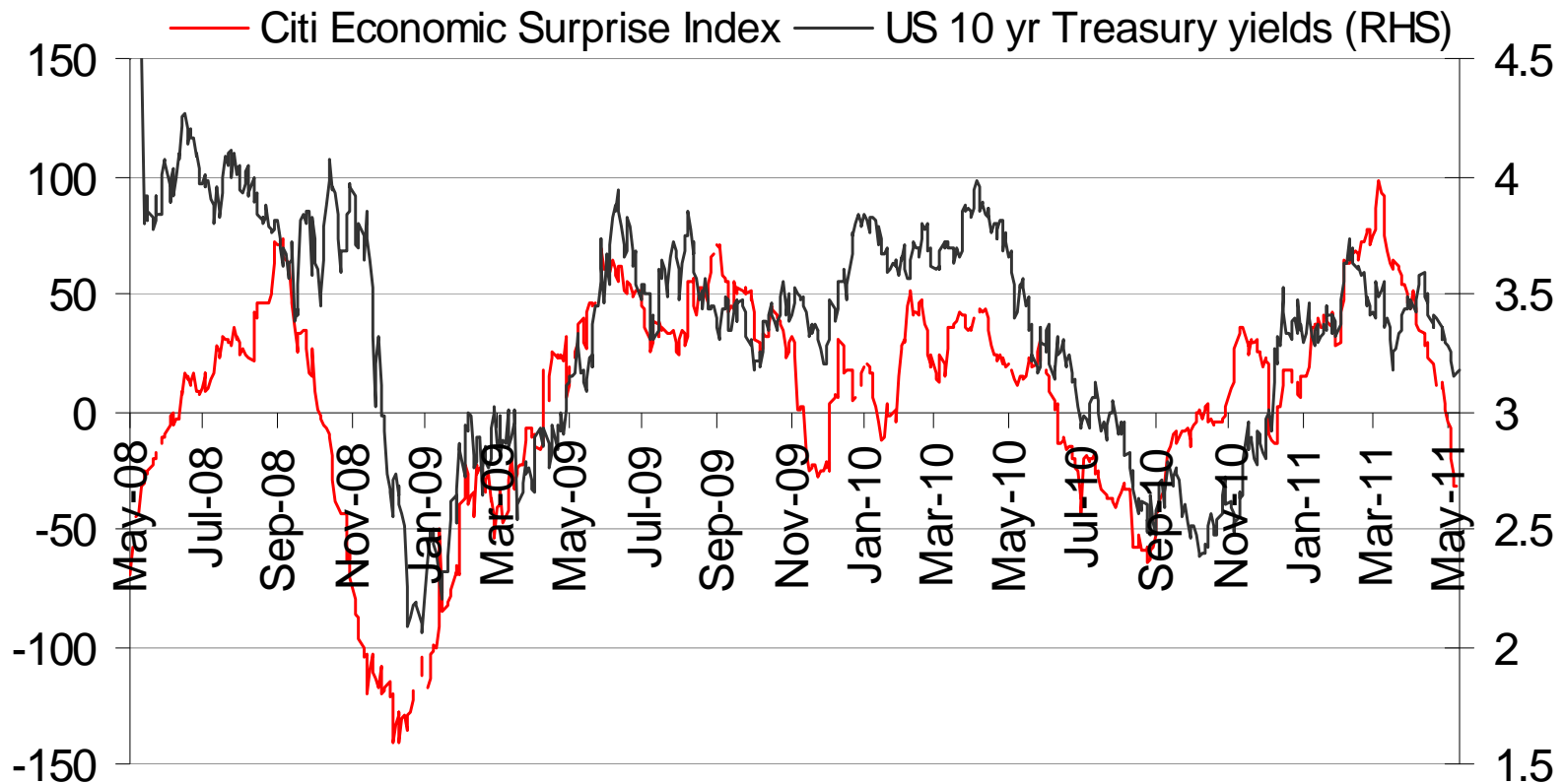
US Interest rate expectations have fallen back



Source: Bloomberg, May 2011

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As negative US economic surprises push US 10 year Treasury yields lower too

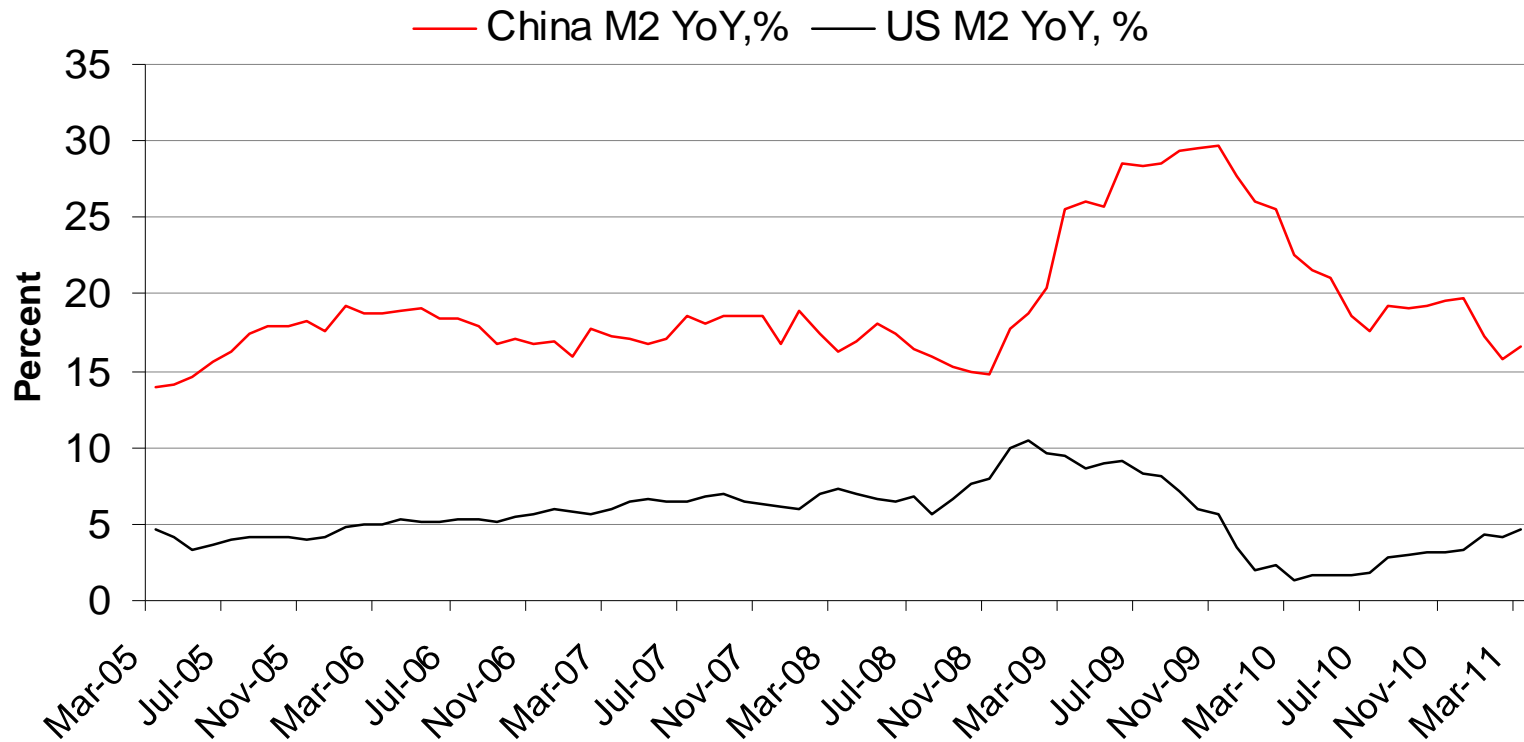


Source: Bloomberg, May 2011

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US Fed may 'pause' monetary policy while China continues to tighten

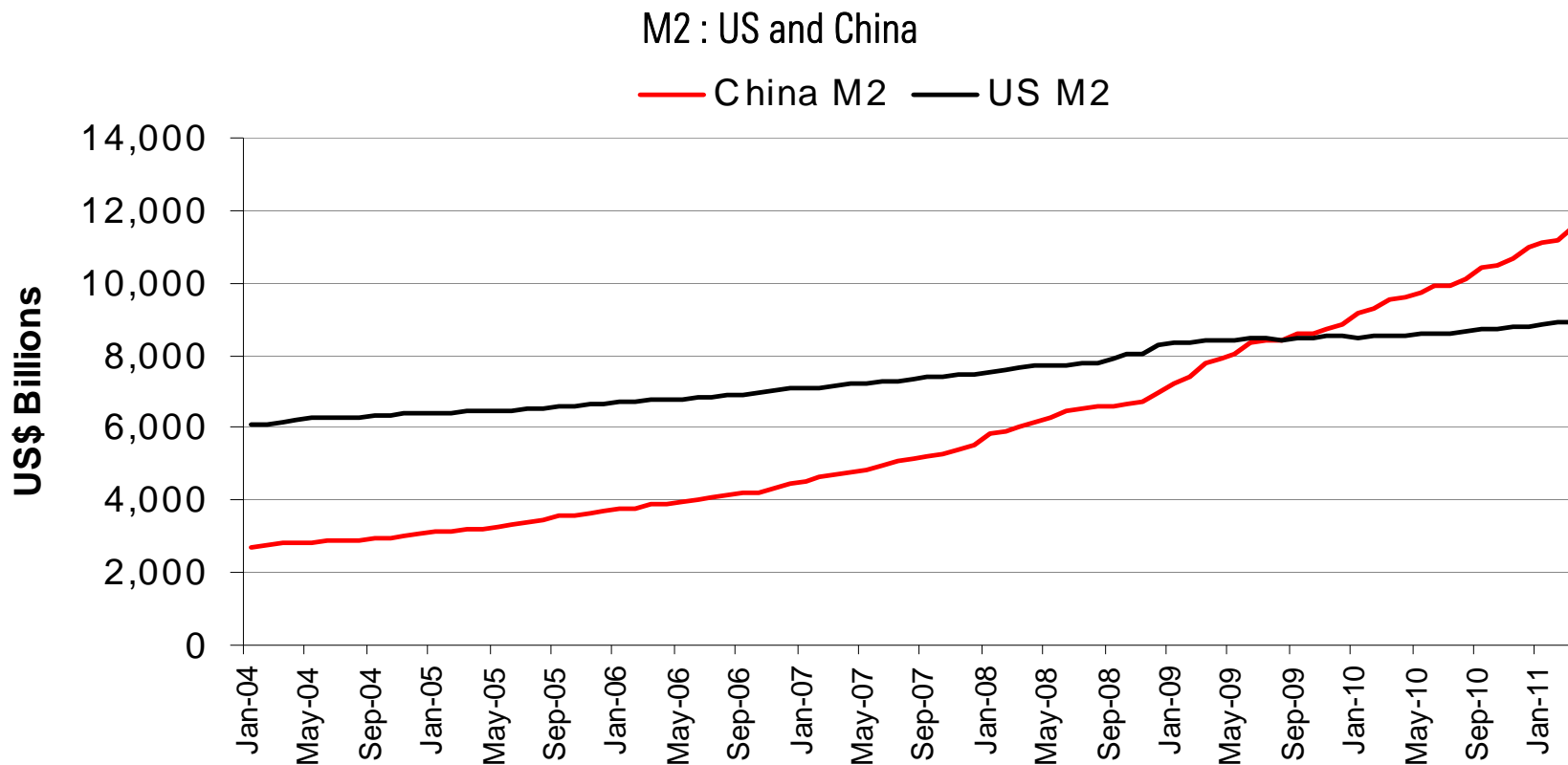
M2 Growth: US and China



Source: Bloomberg, May 2011

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China's money supply (M2) exceeds that of the US; global imbalances building up

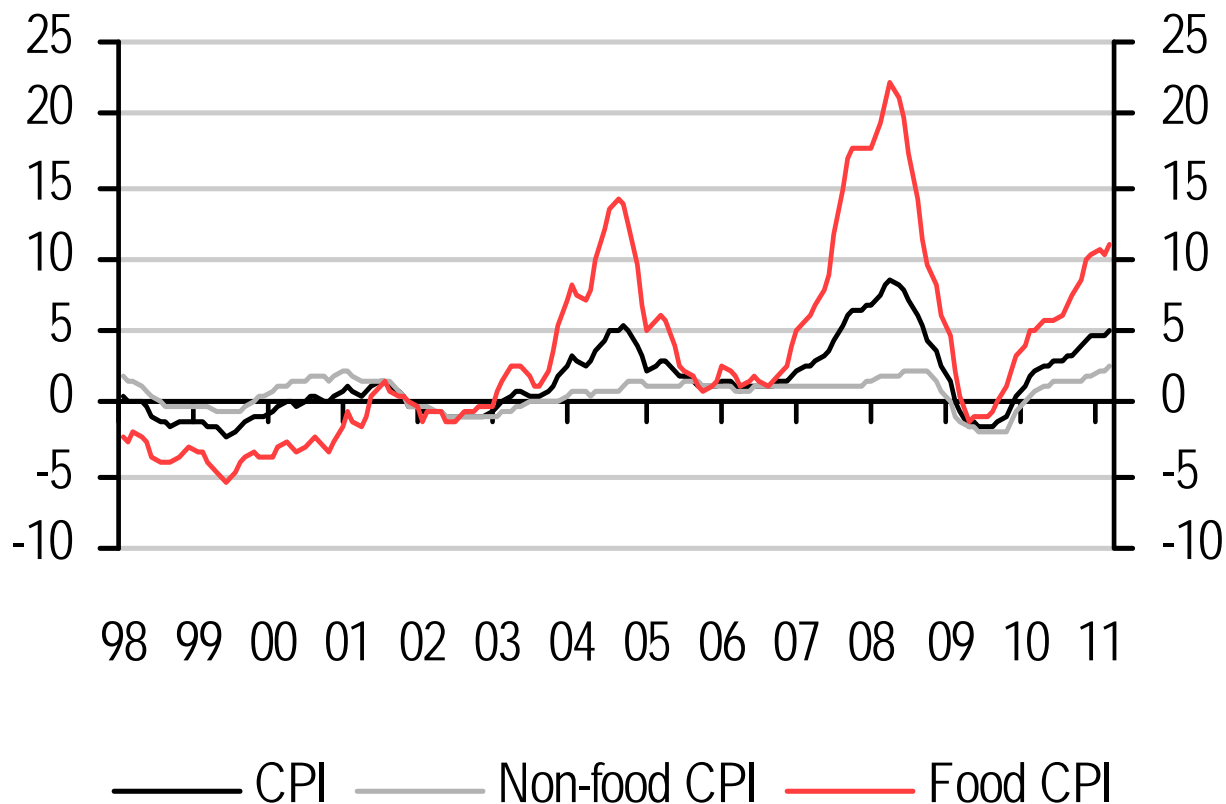


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Is China able to control inflation?

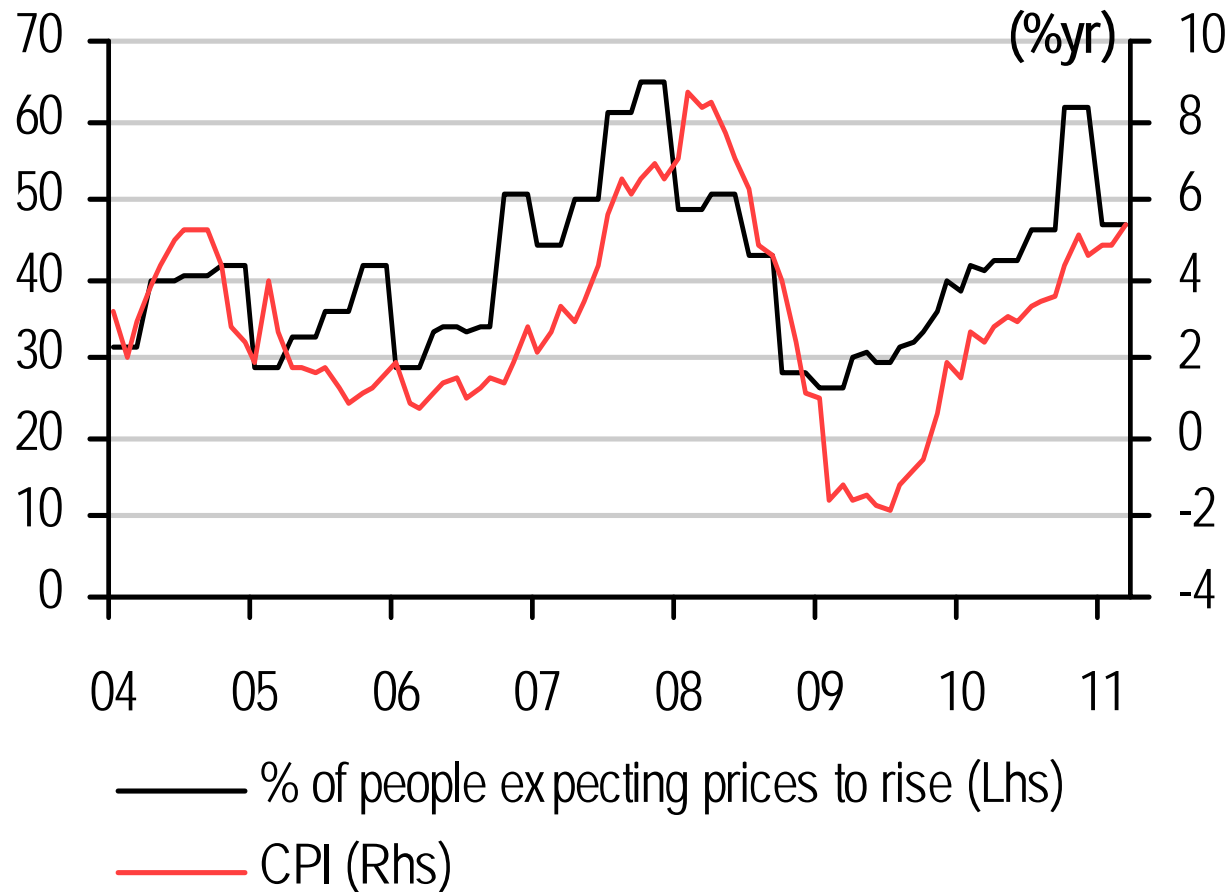
Both headline and core CPI rising fast....



Source: Bloomberg, May 2011

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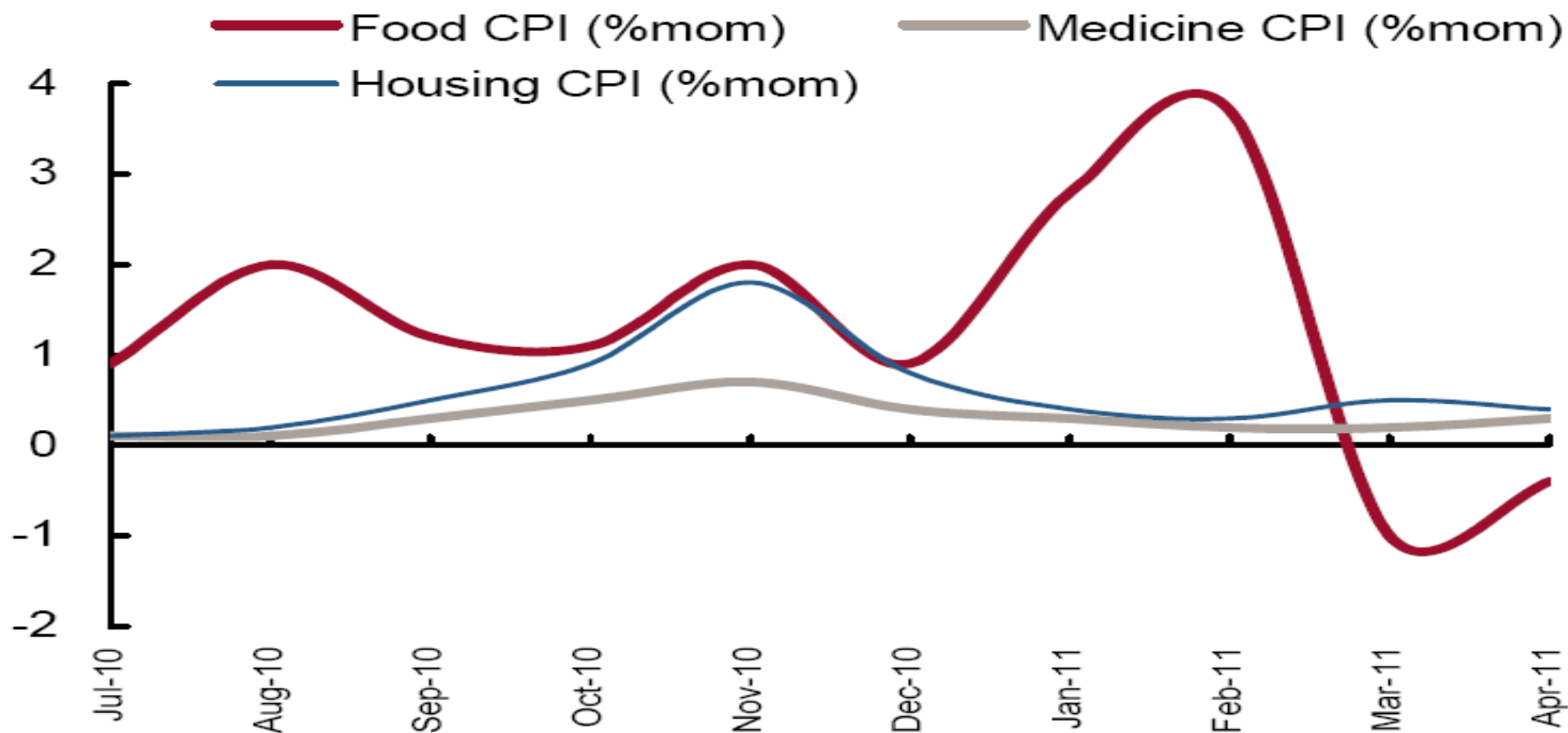
... as well as inflation expectations



Source: Bloomberg, May 2011

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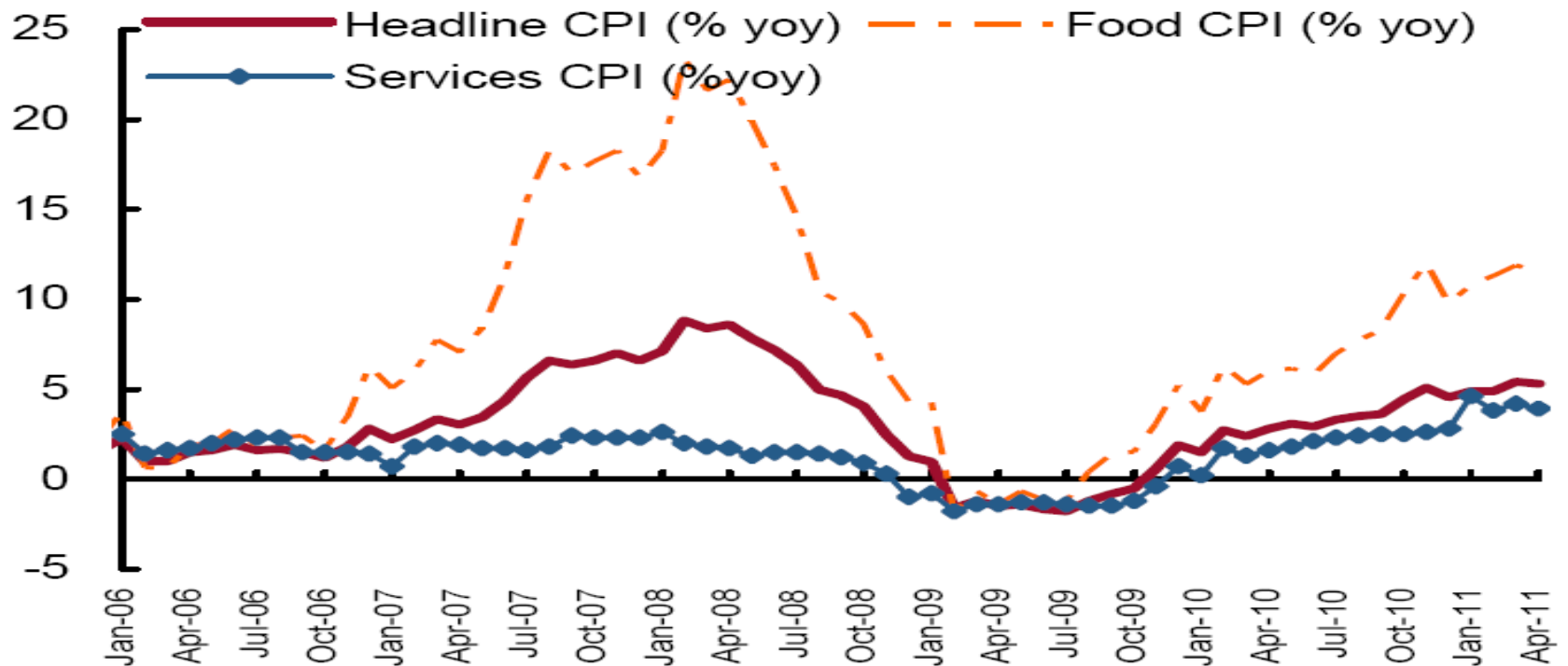
Food prices fell in the past 2 months, but services prices still rose...



Source: Bloomberg, May 2011

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... and this helped keep CPI elevated at 5.3% in April



Source: Bloomberg, May 2011

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Our view of the world

Market drivers

1. We believe that the global growth recovery maintains its momentum for now. →
2. Monetary policy remains accommodative in the West. →
3. Inflation is rising around the globe. →
4. Policy actions play an important role. EM economic performance should remain robust. →
5. Key risks: European sovereign finances and inflation. →

Investment implications

The outlook for equities remains positive.

Cash is relatively unattractive.

Policy implications are impacting emerging market equities. Inflation may slowly start to affect risk appetite in the West, too. We look for inflation hedges in our portfolios.

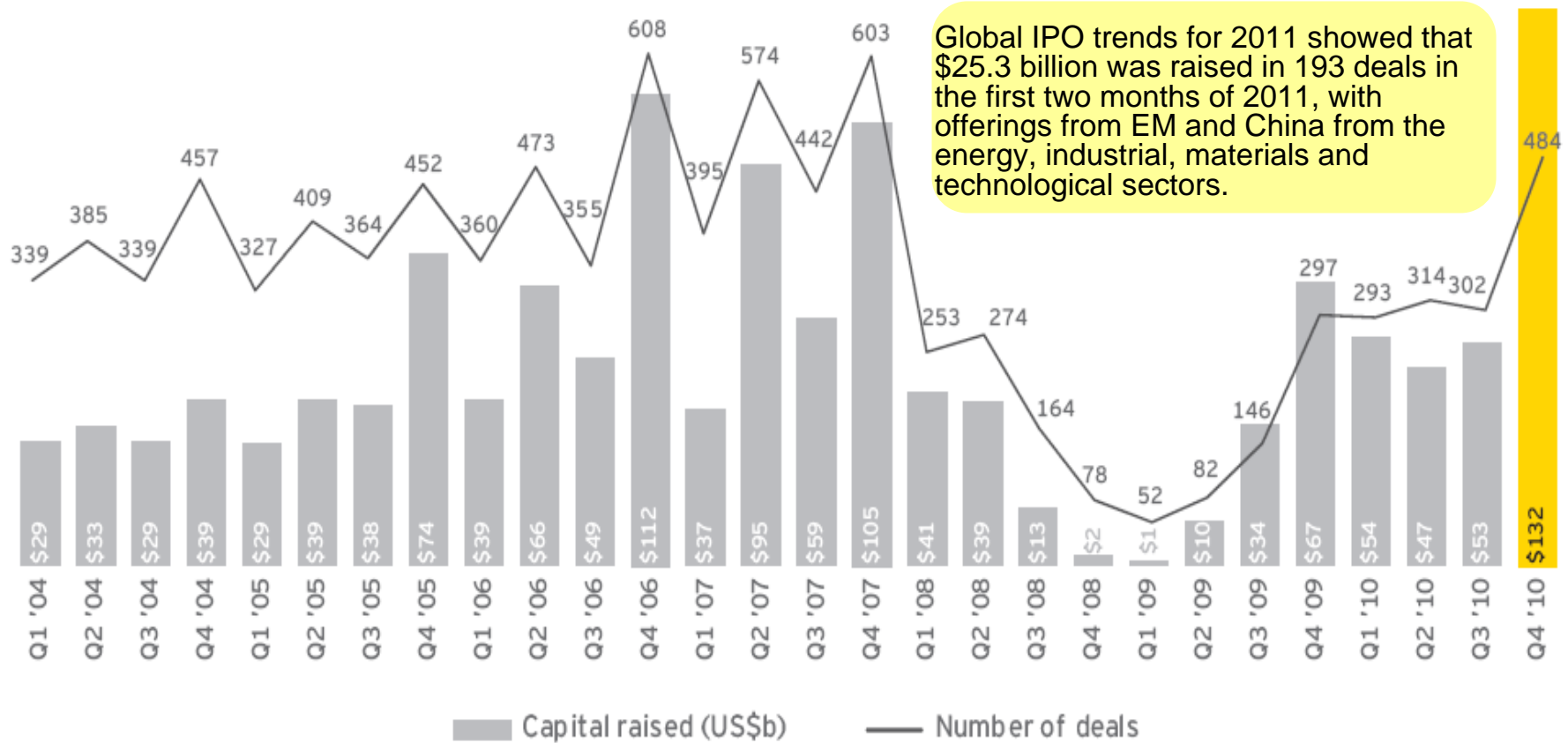
Interest rate hikes should boost select EM currencies.

We remain focused on core European countries. Upside on EM bonds is limited.

Source: HSBC Private Bank The Big Picture, May 2011. Please refer to the relevant publication for details. Such document is available upon request from your relationship manager. Note: Investors are reminded that there can be no assurance that economic conditions described herein will remain in the future. Actual results may differ materially from the forecasts/estimates. Views, opinions, trends and prices are subject to change without notice and are expressed solely as general market commentary and do not constitute investment advice or guarantee of returns. We can give no assurance that those expectations reflected in those forward-looking statements will prove to have been correct or come to fruition, and you are cautioned not to place undue reliance on such statements. We undertake no obligation to publicly update or revise any forward-looking statements contained in this document or any other related document whether as a result of new information, future events or otherwise.

Surge in Risk Appetite seen in the IPO market

Global IPOs by number of deals and capital raised

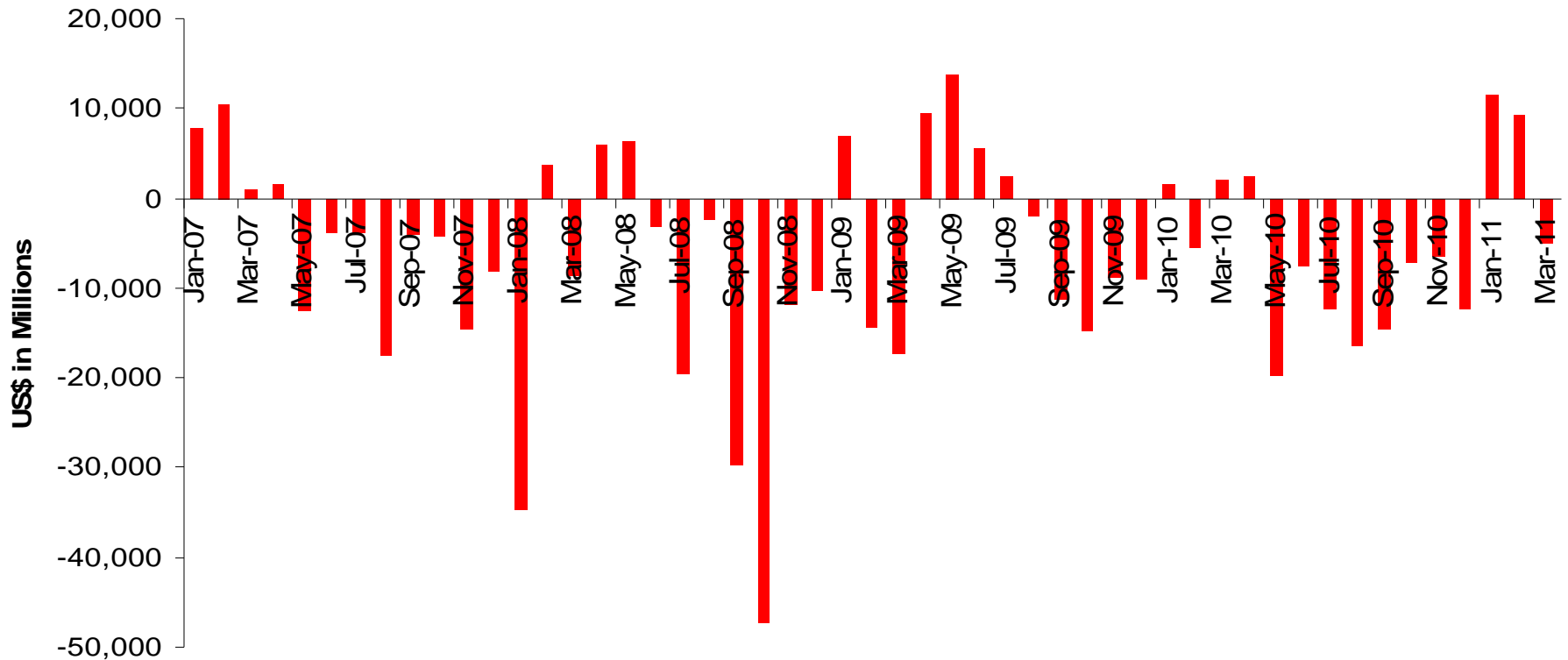


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US investors are finally putting money into equity funds?

Domestic Equity Mutual Fund Cash Flows

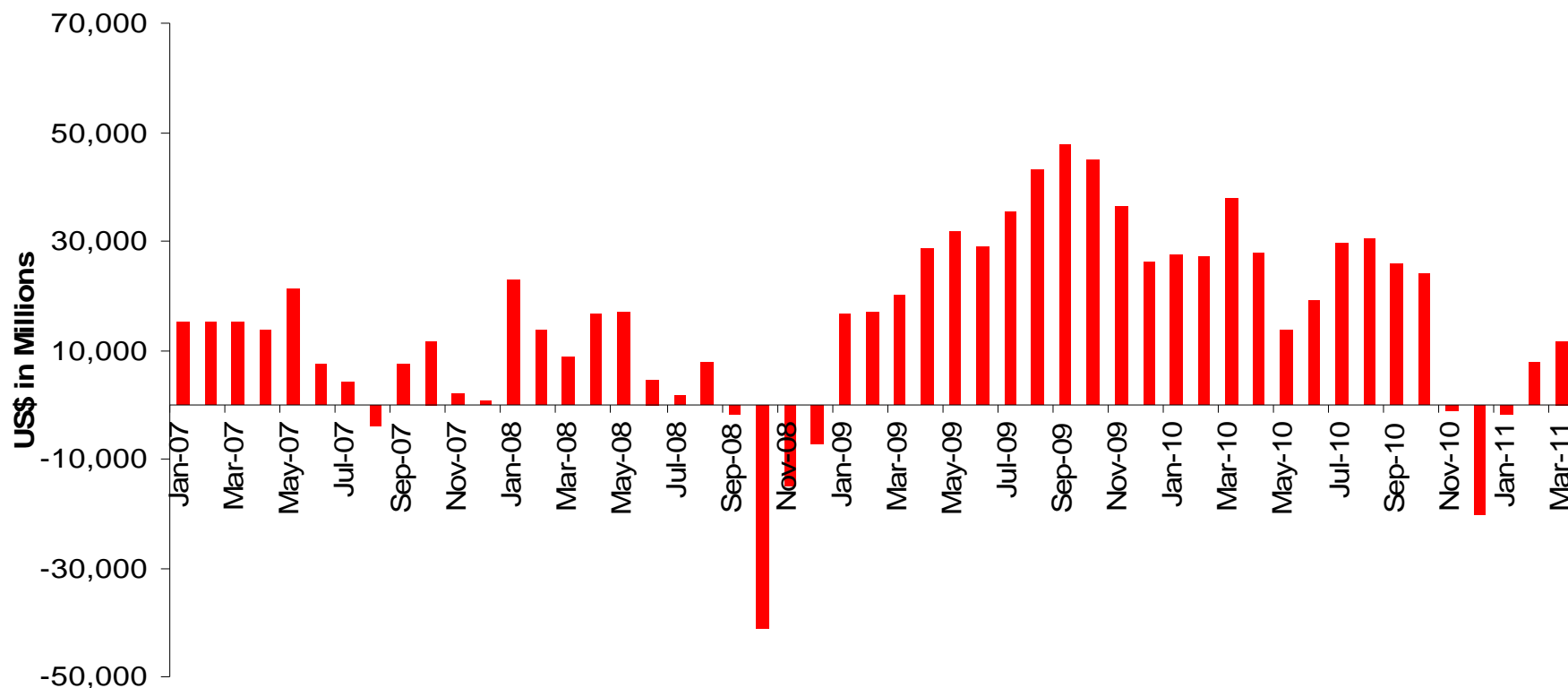


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US investors shifting out of bond funds?

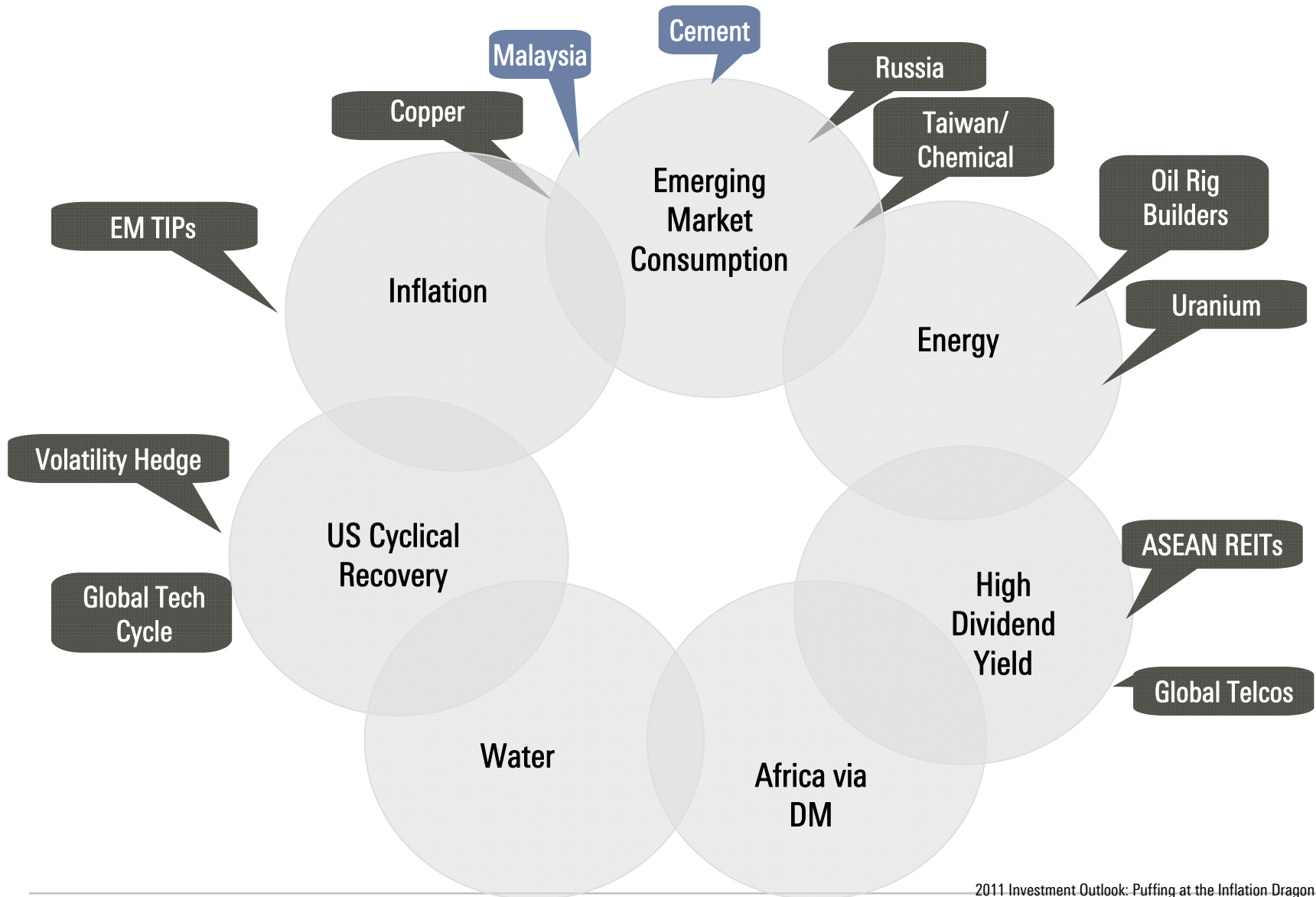
Bond Mutual Fund Cash Flows



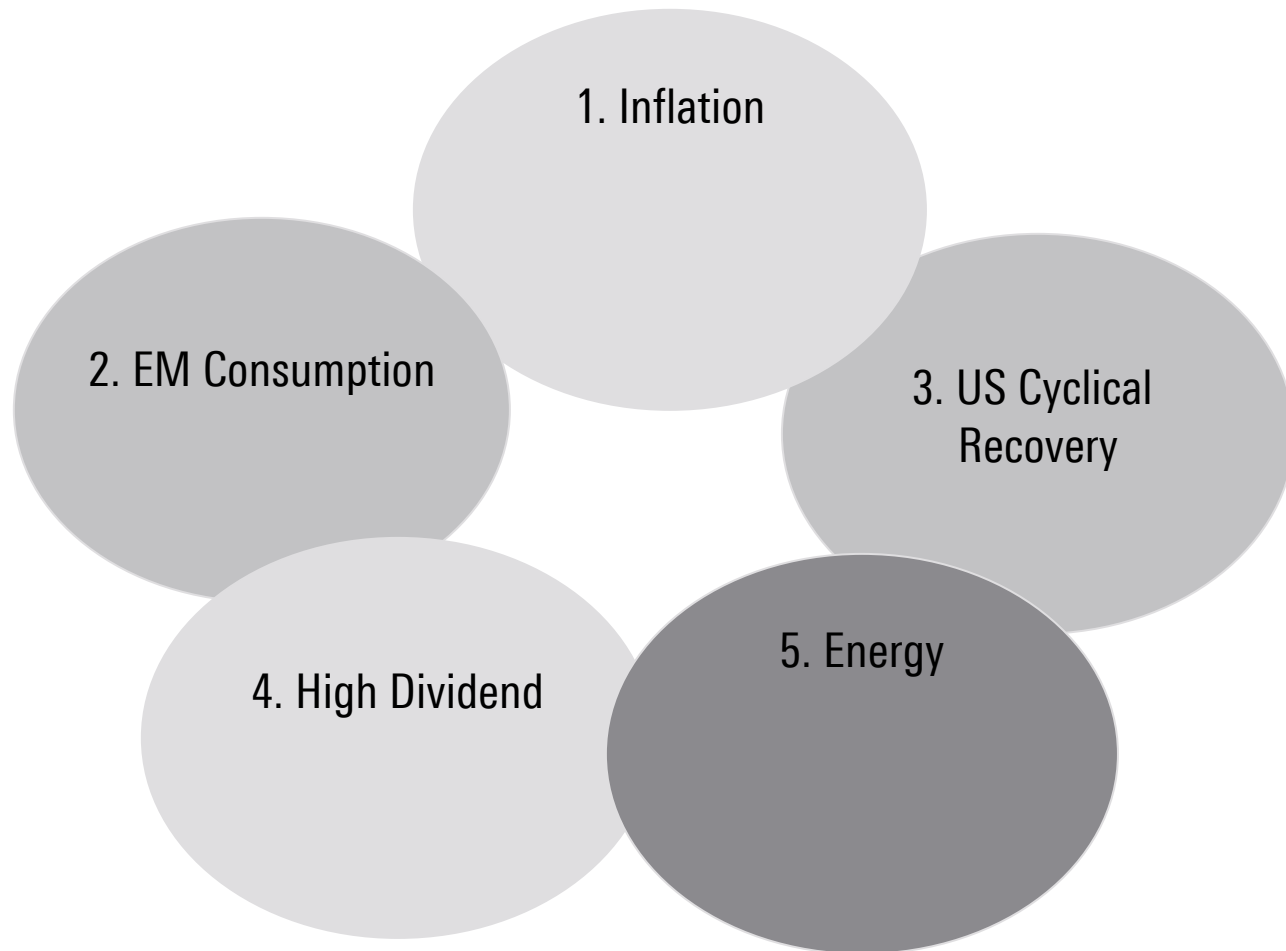
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7 Themes Roadshow 2011



Asian Investment Outlook: Themes for 2011 and beyond



Examples of theme investing

Themes	Top Equity Picks	Top Fund Picks
Inflation	<ul style="list-style-type: none"> • Platinum producers • Diversified miners • Financials • Landlords 	<ul style="list-style-type: none"> • Inflation-hedged funds • Commodities funds • Mining & gold fund • Agribusiness funds
EM Consumption	<ul style="list-style-type: none"> • Consumption stocks whose revenue generates from emerging markets 	<ul style="list-style-type: none"> • EM equity fund, BRIC fund • Russian equity fund • Malaysian fund • Luxury goods funds
Energy	<ul style="list-style-type: none"> • Oil & gas producers • Clean-coal producers 	<ul style="list-style-type: none"> • Global energy fund
US Cyclical Recovery	<ul style="list-style-type: none"> • US IT & Industrial stocks • Korea IT & Industrial stocks 	<ul style="list-style-type: none"> • Volatility Fund
High Dividend	<ul style="list-style-type: none"> • Asian REITs • Global Telecom stocks 	<ul style="list-style-type: none"> • High dividend yield funds with Asian/Global equity exposure

Examples of theme investing

Themes	Top Equity Picks	Top Fund Picks
Japan	<ul style="list-style-type: none"> • Japan equipment makers 	Japan equity ETFs/funds
Korea	<ul style="list-style-type: none"> • Korean IT, consumer, financials 	Korea equity ETFs Korean thematic funds
Taiwan	<ul style="list-style-type: none"> • Taiwan tech stocks • Taiwan consumer stocks 	Taiwan equity ETFs Taiwan tech funds
Singapore	Spore Rig builders Spore Telecoms Spore REITs	Singapore & sector equity ETFs
Malaysia	M'sia Telco	Malaysia equity ETFs/funds
China	<ul style="list-style-type: none"> • Urbanization • Consumption 	China equity ETFs/China Funds
Australia	<ul style="list-style-type: none"> • Resources owners 	Australia equity ETFs Resource Funds

Commodities Sell-Off A Precursor To Slower Growth?

Silver 3 May 2011

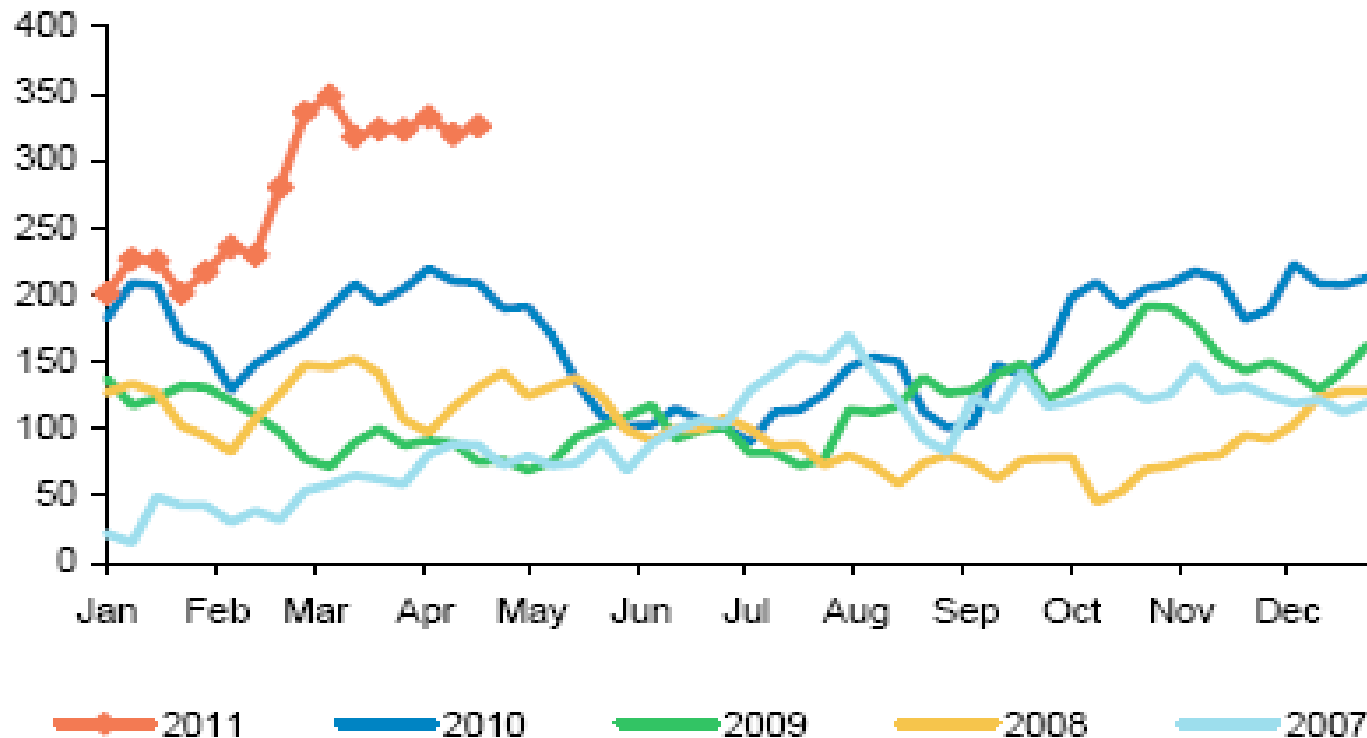


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Crude Oil speculative position for 2011 at a record high compared to other commodity bull years like 2007 and 2008

(Crude speculative length, in futures and options – '000s contracts)



Source: Bloomberg, May 2011

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Brent Price Performances after Significant Sell-Offs

Brent Prices during and after significant 1 day sell-offs since 1998

(Prices indexed to dates below, where day 0 = 1)

	Daily % Fall on Day = 0	Trading Days After Initial Sell-Off				
		+5	+10	+25	+50	+125
17-Dec-98	-8.3%	0%	4%	5%	9%	62%
8-Mar-00	-9.7%	-4%	-12%	-20%	-5%	19%
16-Jun-00	-9.3%	7%	8%	-3%	7%	-3%
20-Dec-00	-8.1%	4%	6%	16%	16%	16%
24-Sep-01	-13.4%	4%	-2%	-4%	-10%	15%
14-Nov-01	-9.9%	0%	0%	4%	5%	40%
29-Sep-08	-9.2%	-11%	-18%	-36%	-54%	-45%
10-Oct-08	-10.4%	-6%	-16%	-27%	-41%	-31%
1-Dec-08	-10.3%	-9%	-7%	-4%	-8%	34%
24-Dec-08	-9.3%	28%	21%	25%	23%	83%
2-Mar-09	-8.9%	5%	4%	24%	37%	70%
5-May-11	-8.6%	-	-	-	-	-

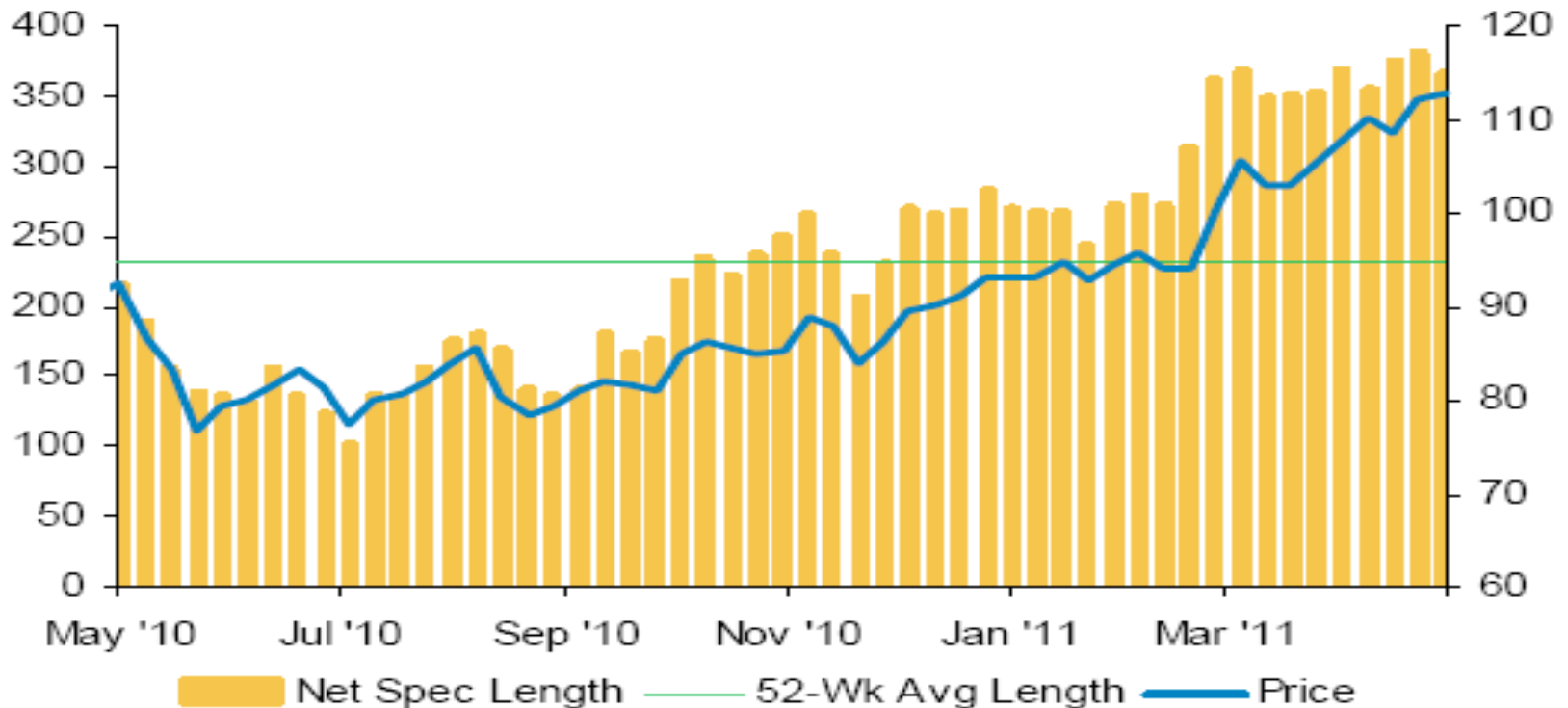
Source: Bloomberg, May 2011

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Commodities that have higher net speculative positions were more vulnerable to price corrections

Crude Oil Net Speculative Length vs. Prices

(left axis: '000 contracts; right axis: USD/bbl)

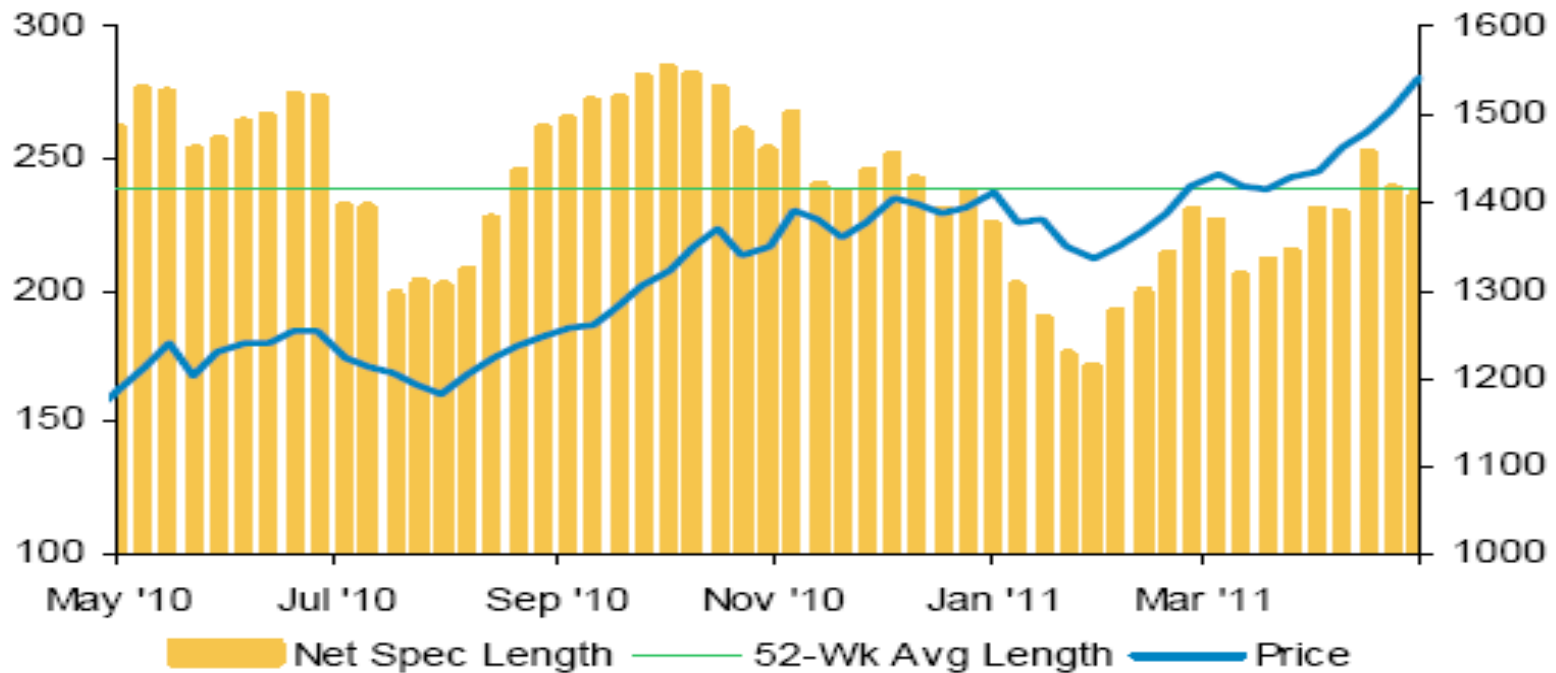


Source: Bloomberg, May 2011

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Commodities that have higher net speculative positions were more vulnerable to price corrections (con't)

Gold Net Speculative Length vs. Prices (left axis: '000 contracts; right axis: USD/troy oz)

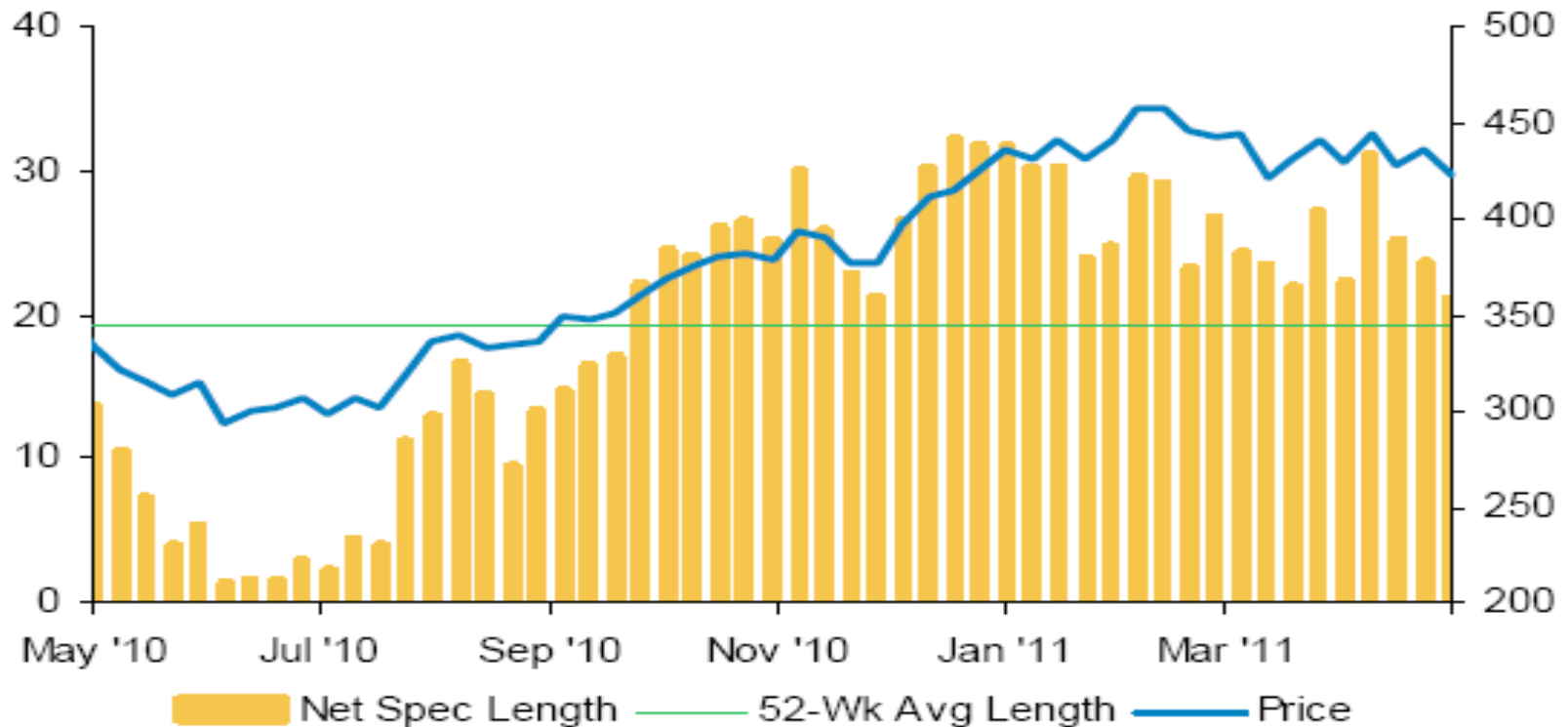


Source: Bloomberg, May 2011

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Commodities that have higher net speculative positions were more vulnerable to price corrections (con't)

Copper Net Speculative Length vs. Prices (left axis: '000 contracts; right axis: USD/tonne)

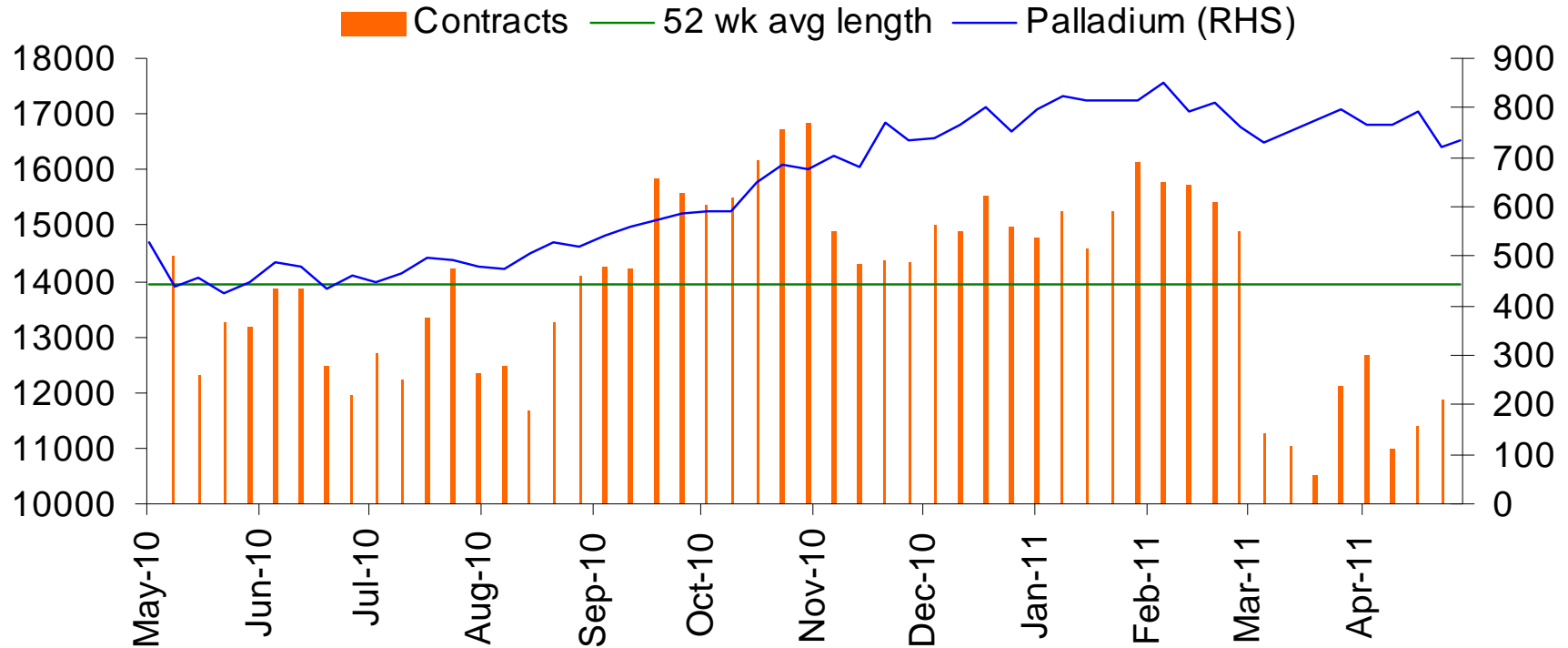


Source: Bloomberg, May 2011

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Commodities that have higher net speculative positions were more vulnerable to price corrections (con't)

Palladium Net Speculative Length vs. Price

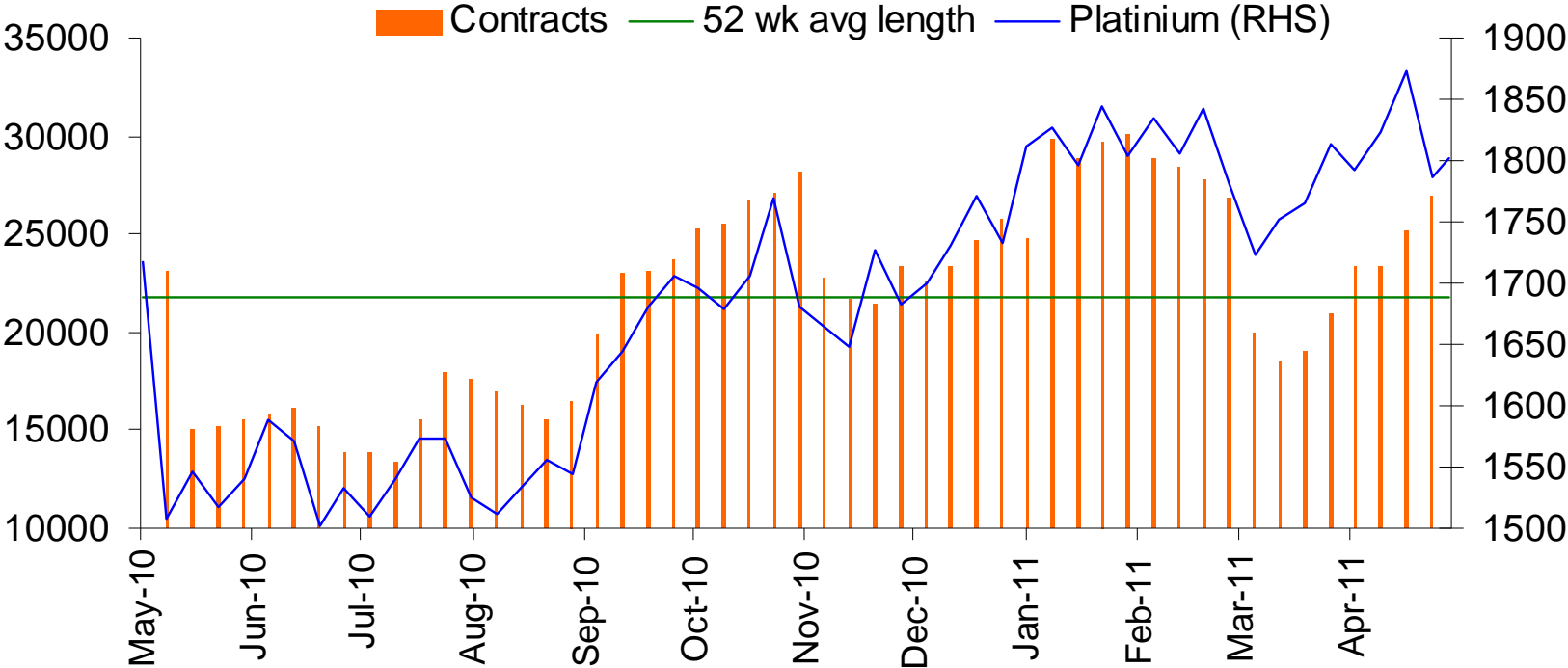


Source: Bloomberg, May 2011

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Commodities that have higher net speculative positions were more vulnerable to price corrections (con't)

Platinum Net Speculative Length vs. Price

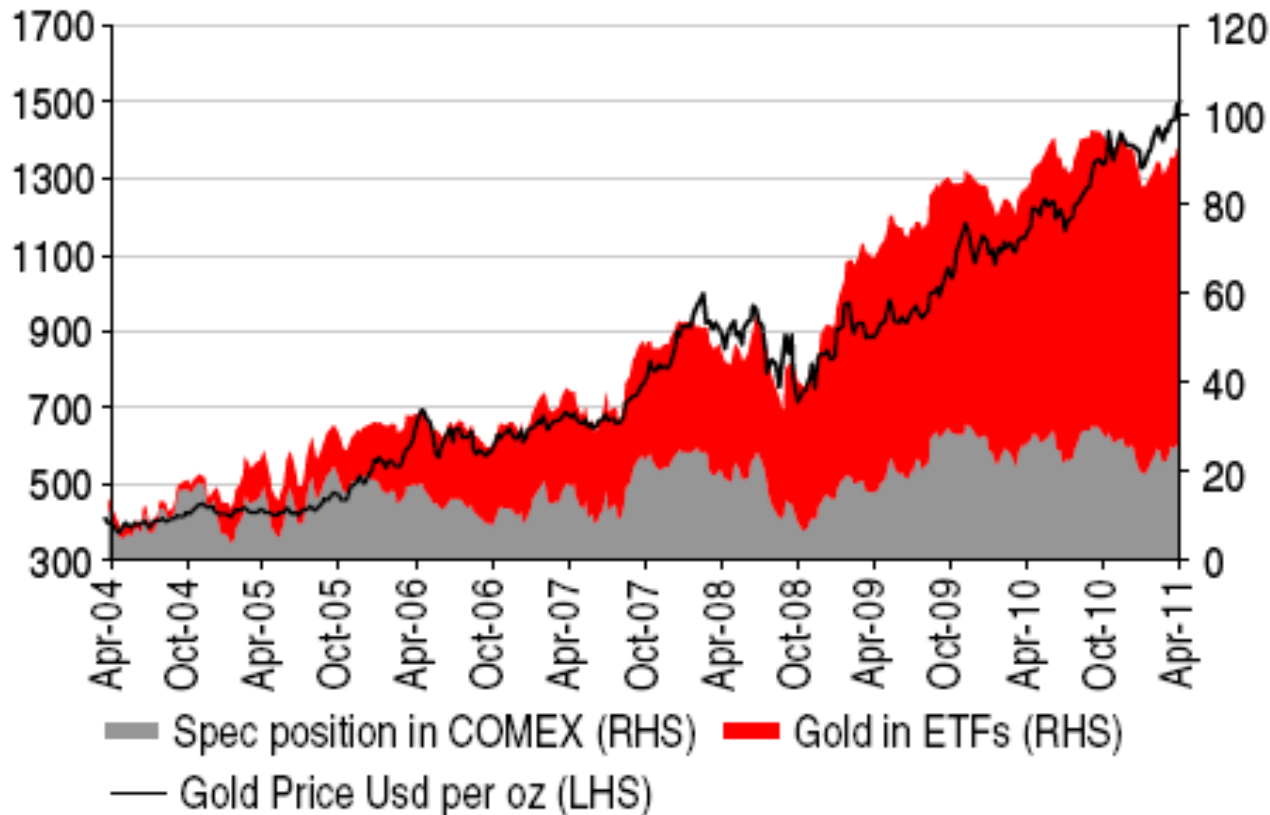


Source: Bloomberg, May 2011

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Commitments of Traders reports still show a commitment to gold which will support gold prices in the near-term

Gold: ETF and net speculative positions



Source: Bloomberg, May 2011

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