HSBC PREMIER

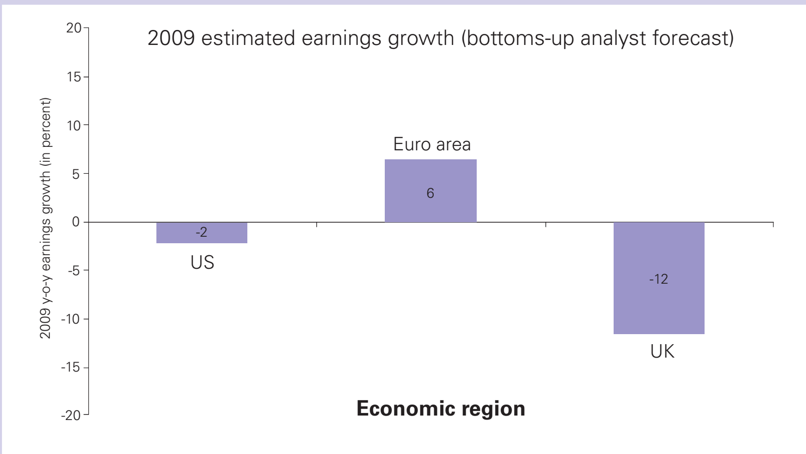
# Global Investment Perspective

February 2009

Global equity markets failed to hold on to the December gains, and fell by 6% - 9% in January, due to worsening economic data and negative corporate results.

Last month, global labour and housing markets deteriorated. And manufacturing output continued to ease, in synchronization with the slump in global demand. Given the lack of job security, and the still tight credit conditions, housing prices fell an additional 1-2% in the US, and in the UK. Retail sales also contracted further in those markets, as consumers preferred to save, in lieu of spend. In the Eurozone, employment weakened further and industrial output fell 1.6%, again in November, led by Germany at -3.3%. The situation was worse in Japan, as manufacturing output tumbled 8% in November and bankruptcies rose the most in eight years, with companies reeling from falling export demand and weakening domestic consumption.

As such, Consensus Economic growth forecasts have continued to be revised down last month in many regions of the world, as confidence dipped given the bleak assessment for the rest of 2009 and possibly beyond. Despite the various weak revisions and forecast sources, we can see positive quarterly growth by late 2009, in the US. The one reprieve has been the lower inflation as commodity prices fall, and this can give central banks more room to lower interest rates. Given the weak economic situation, we are leaning towards the view that interest rates globally will converge towards and languish at near zero, for some time.




## Market

### US

#### Attractive Valuation but Risks Continue to Point to the Downside

Trading at 11 times 2009 earnings, valuation appears to be reasonable. Nonetheless, further downward earnings revisions are likely due to ongoing negative economic news flow. On balance, we maintain our moderate underweight of US equities versus cash.

### Europe

#### Mounting Risks of a Significant Slowdown In Europe

Economic conditions deteriorated during the month, and negative data and forecasts have continued to worry investors. This has combined with company earnings risks, although much of this has been mitigated by the already-low 2009 forecasts. We reinforce our defensive message of favouring cash for the short term.

## Indonesia

### Valuation is Attractive, but Risk Aversion Remains Negative for This Asset Class

Due to global market corrections since last year, valuation has been declining and its forward price to earning ratio is considered as one of the lowest in Southeast Asian region. However, uncertainty toward global economic condition could drive risk aversion to remain high in the market and pressure its stocks prices. Therefore we maintain neutral view on this assets class.

## Asia ex-Japan

### Low Price Multiples, but Risks to Growth Forecasts On Downside

Valuations are reasonable considering the bleak market conditions. But despite seemingly high growth numbers (eg, India and China), Asian central banks are likely to cut their rates aggressively on large economic uncertainties. We thus reinforce our defensive message of favouring cash for the short term.

## Emerging Markets

### Price Multiples are Attractive but Risks to Growth Remain

The price multiples are attractive but growth risks remain as we enter the long year ahead. But even with potentially good valuations, growth concerns partially counterbalance this. So overall, we reinforce our defensive message of favouring cash for the short term.

## COMMODITY

### Oil - Prices Continued to Weaken, but Production Cutbacks May Provide Support

Oil price fell a further 6% in January to US$42 per barrel on a weakening demand outlook, although cutbacks in production should help sustain prices at US$40-60 over a longer horizon. Talks of cutbacks by Saudi Arabia and other OPEC nations are ongoing but have not been fully implemented.

# Interest Rate / Fixed Income

## US

### Unattractive Valuation and Increased Supply Negative for Asset Class

The low level of yields means that valuations remain unattractive. Plus, increased debt issuance in order to fund ongoing rescue packages is also unsupportive. While in the short term, heightened risk aversion and the prospect of quantitative easing may keep yields at low levels. We maintain our negative view on the asset class on a medium-term basis.

## Eurozone

### Risk Aversion Already Priced In, Valuation of Asset Class Stretched

Although economic weakness and the near-term absence of inflation are supportive factors for the asset class in the short term, these are already reflected in low yields and expectations of further rate cuts from the ECB. From a valuation perspective therefore, Eurozone bonds continue to look unappealing.

## Indonesia

### Pressured By Risk Aversion and Widening Budget Deficit

The high level of yield has been attracting investors to accumulate local bond. However, risk aversion that drove rupiah to weaken last month and widening budget deficit, could limit the upside potential. Therefore, we maintain our neutral stance for this assets class.

## Emerging Market

### Macro Outlook Unsupportive With Additional Risk From Weak Commodity Prices

Valuations are attractive but continue to be less appealing than global US investment-grade corporate or global high-yield debt, given increased EM risks. The macroeconomic picture remains unsupportive and additional risks come from weak commodity prices (e.g., note the Russia downgrade to BBB in early February). Therefore, we retain our negative stance on the asset class.

# Currency

## USD

### Strength in Currency Contrary to Direction of Negative Data

The strong performance of the USD in January was surprising given the cascade of negative economic data. With interest rates converging towards zero, carry trades and interest rate differentials are ceasing to provide a useful guide to currency movements. And so with no clear direction, we maintain our neutral view on the USD.

## GBP

### Negative on GBP as Outlook Turns Increasingly Bearish

Jobless numbers continued to mount and the severity of the downturn in the UK economy has led to increasingly bearish sentiment. We saw the February rate cut and now see a small amount of additional cuts over the next six months, which in total is more easing than market estimates. And, as such, we have turned negative on the GBP.

## EUR

### Interest Rate Differential With USD Narrows Further

Business confidence, consumer sentiment and capacity utilisation continued to decline, while data points to another period of growth contraction for the Eurozone in the first quarter. And as we expect the ECB to cut interest rates further, interest rate differential will be less of a driver for the EUR-USD exchange rate. We thus maintain a neutral position on the EUR.

## Rupiah

### Flight-to-Safety and Declining Commodity Prices Are Negative for the Currency

Risk aversion has been driving demand for the dollar to rise in the market. Furthermore, declining commodity prices may reduce income from exports and could lower foreign reserve, which has been used by central bank to intervene the FX market in order to stabilize the currency. Therefore, we maintain our negative stance for rupiah.



T 500 700 (local)
64 700 (mobile phone)
W www.hsbcpremier.co.id