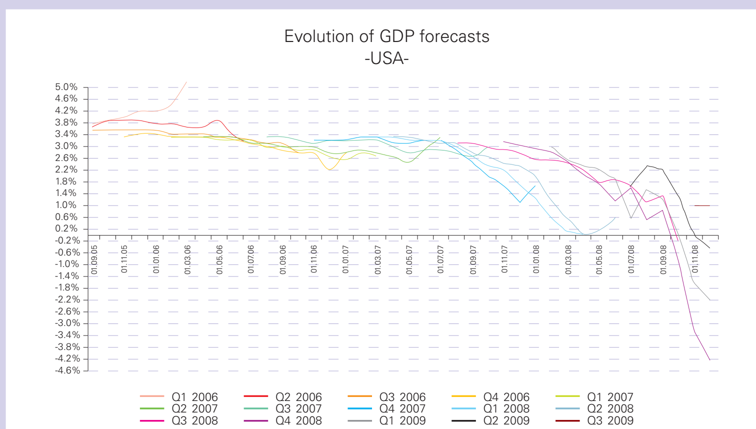
HSBC PREMIER

Global Investment Perspective

January 2009

Although markets ended the year with negative annual returns, December was mildly positive for equity markets, partly driven by news of more fiscal stimulus in the US. We should, at the same time, note that 2009 global growth forecasts continue to be revised down at a more rapid rate.

Ongoing economic data reflects the deterioration of the global economy. In the US, Eurozone as well as the UK, manufacturing, housing and mortgage lending data continues to weaken.



Nevertheless, there has been a mild relief for the sluggish economy from the continued decline in energy prices. That said, there is a potential risk of deflation, although we believe this risk is low due to the measures governments are taking in order to drive economic activities and encourage consumption.

The December US Federal Reserve interest rate cut to just greater than zero percent is a further reflection of the dire economic uncertainty. In Japan, despite interest rates being already low, the central bank was forced to act, and lowered its rate from 0.3% to 0.1%. With the weak economic situation, we expect monetary policy will support global economy.

Market

US

Maintain A Defensive Position In Equities Relative To Cash

Based on the current earnings yield, valuations are attractive, but the economic risks are still high. Other risky asset classes offer possibly better risk-adjusted returns (e.g., high-yield corporate credit). A deflationary scenario would be potentially bad, but we believe this scenario is also unlikely.

Europe

A Familiar Story Of Attractive Yield Countered Out By Still High Risks

As earnings expectations fall, the forward price to earnings ratio rose to 9 times in the UK and remained at 8 in the Eurozone. While earnings yield remain attractive, it is balanced with still high economic growth uncertainty as housing and sentiment continue to weaken.

Indonesia

Deteriorating Fundamental, but Lower Interest Rates and Petrol Prices Might Come in Time

With forward PE ratio at the lowest level among Asian markets at 8x, valuations are attractive. Interest rate cut and lower oil prices may also add support the market. However, slower than expected growth remains to be the key risk of this asset class.

Asia ex-Japan

Valuations Inexpensive If 2009 Forecasts Indeed Prove Accurate

Given the weak conditions and large price declines over 2008, the forward price to earnings ratios remain low, and may even be considered inexpensive if current earnings forecasts were to prove accurate. Yet, forecasts for earnings may turn out to be too optimistic if growth weakens more than expected.

Emerging Markets

Attractive Valuations But Growth Risks To Consider

Trading at 4 to 9 times price to earnings ratio among BRIC countries, valuations are attractive. But slowing economic readings are a concern, and growth forecasts are coming down as a result. Inflation has declined within BRIC countries. The key risk for emerging markets continues to be slower than expected growth.

COMMODITY

Oil - Appealing Valuations, But Added Risk From Weak Commodity Prices

There is now speculation that OPEC wants to keep oil price low to reduce US incentives to develop alternative energy sources. However, recent turmoil in the Middle-East could push oil price higher. We expect it to trade in a range of $40-$60 over the next 6-12 months.

Interest Rate / Fixed Income

US

Flight To Safety Positive, But Low Yields And Supply Factors Unsupportive Over Longer Term

Yields remain extremely low, thus making the asset class unattractive from a valuation point of view. Medium-term supply factors are also unsupportive. Therefore, we express a negative view on the asset class relative to both cash and corporate credit on a 6 to 12 month horizon.

Eurozone

Low Yields Make Asset Class Expensive

Yields fell across the entire maturity spectrum. With yields at such low levels, valuations are not supportive. On a 6 to 12 month view, we have a preference for cash and credit assets relative to government bonds.

Investment Grade

Very Good Valuations

Valuations for this asset class continue to be extremely attractive with spreads still at very interesting levels. On a 6 to 12 month horizon, our view is positive, but we also continue to warn investors of the potential liquidity risks and significant volatility in the short term.

Indonesia

Limited Appreciation After Recent Rallies

The December rallies drove yield spread with benchmark rates to narrow down. The attractiveness of higher yield may have diminished, unless there is a strong indication of significant interest rate cut and improving stability in the currency. Therefore we maintain our netural view on this assets class.

Currency

USD

At Fair Value Relative To GBP And EUR

The USD continues to be at fair value relative to the GBP and the EUR. The interest rate differential is likely to play a marginal role in the next few months as rates in the Eurozone and UK are falling and converging towards US levels. Together with a neutral signal from a valuation perspective, we maintain our neutral view.

GBP

Weakness Of Currency Is Reflection Of Dismal Economic Picture

The UK macroeconomic outlook continues to be the most bearish among the developed countries. From a valuation and macroeconomic point of view, we think that risks continue to be balanced. Hence, we maintain our neutral position on the GBP.

EUR

Interest Rate Differential With USD Narrowing

As both the US and the Eurozone face similar macro problems, we think that risks are balanced. And as the EUR continues to be at fair value relative to the USD, we maintain a neutral position.

IDR

Still Under Depreciation Pressure in Near Term

Last December strengthening in IDR may be short-lived as risk aversion attitude among overseas investors remain high, due to global recession that lead to slower exports and declining commodity prices, which could pressure the currency. Therefore, we change our view to negative for IDR.

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