HSBC

News Release

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HSBC SEES VOLATILITY CREATING LONG-TERM WEALTH OPPORTUNITIES IN 2012

****Emerging market equities particularly China and Russia offer attractive value****

****Strong balance sheets support corporates and high yield bonds for income generation****

****Market volatility to continue and diversification remains key****

Short-termism has driven markets at the expense of long term investment thinking during a markedly volatile 2011. However, this has created what HSBC Global Asset Management believes to be a potentially strong set of investment opportunities for 2012 for those with a longer-term perspective.

To date, frequent rotations in sentiment in markets reflect the fact that officials have been applying a ‘sticking plaster’ approach to addressing fundamental problems – acting only when faced with severe market pressure, and only then delivering just enough to stem the tide in the short run. With this context, at the forefront of investors’ minds is concern around European policymakers being able to deliver a comprehensive long term solution to deal with the Eurozone crisis.

Given the risks to the outlook, many investors have flocked to ‘safe havens’ this year, forcing government bond yields to the lowest levels for a generation, which puts some in a position where returns are negative when inflation is taken into account. Combined with the negative fundamentals such as high debt levels, government bonds of developed markets do not represent good value on a medium term basis.

However, the opposite is true of corporate bonds, which have been sold off during the downturn. Many companies are in solid financial shape, having applied their own austerity measures, thus reducing the probability of a default. These factors support the positive outlook for corporate bonds especially at the high-yield end of the spectrum, and in Asia where fundamentals are relatively stronger.

Solid corporate health and very attractive valuations also support HSBC’s long-term positive view on equities, which are now trading at very attractive levels relative to history. Within equities, emerging markets looks particularly attractive, due to stronger fundamentals than developed markets.

Simona Paravani, Global Chief Investment Officer for Wealth, HSBC Global Asset Management, said: “Global emerging markets will continue to grow as increased wealth leads to higher levels of domestic consumption. Driven by factors such as industrialisation and urbanisation, as well as more robust fiscal positions than many Western economies, our long-term outlook for emerging market economies remains strong. From an investment point of view, this suggests a positive stance towards equities, emerging market currencies and Asian bonds.”

A combination of inflation and the industrialisation of emerging markets favour physical assets like property and commodities. Russian equities, currently priced lower than historical levels, benefit from the positive outlook for oil and hard commodities although political risk remains a source of market volatility.

In the export-heavy Asian countries, the global slowdown has clearly had an impact but HSBC still views the backdrop favourably, with economies offering stronger growth than the West. Inflation is showing signs of moderating and supportive fiscal policies are likely to have a bearing in 2012, which would be positive for the region's economies and equity markets.

Within Asia, Chinese equities are currently attractive, with the market trading on about eight times 2012 earnings. Rapid rises in residential real estate prices could reverse and become destabilising to parts of the economy, but HSBC believes that a soft landing is the most likely outcome.

Godfrey Swain, Head of Retail Banking and Wealth Management, HSBC Bank (Vietnam) Ltd., said: "In a period of prolonged volatility, as investors continue to search for yield and value, diversification and long-term investing have become all the more relevant. Before the crisis, people tended to park their assets in investments without doing anything further with their portfolios. However, a passive approach may not be appropriate in current market situation. Today, a long-term approach means staying invested through the peaks and troughs by reviewing and rebalancing your portfolio regularly to capture market opportunities and mitigate further risks.

"With the help of a trusted professional advisor, both sophisticated and new investors can move from a product-driven to a financial planning-driven approach to wealth management to help achieve more balanced and sustainable growth for your hard-earned wealth."

Media enquiries:

Lucia Ku	+852 2284 1263	lucia.s.m.ku@hsbc.com.hk
Kate Cheung	+852 2822 4964	katehkcheung@hsbc.com.hk

HSBC Media Relations

Ly Hoai Anh
Communications Manager
Telephone: 08 3520 3483
Email: anh.hoai.ly@hsbc.com.vn

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(All figures as at 30 June 2011). For more information see www.assetmanagement.hsbc.com

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