Second Quarter 2011

Equity Strategy
Global

HSBC Global Research

Equity Insights Quarterly

A wobble in an uptrend

- **Pricey oil is likely to cause cyclical indicators to peak, put pressure on margins and push the ECB to raise rates**
- **These factors may cause equities to wobble for a while**
- **We reduce risk a little: stay overweight EM and US, raise financials to OW but cut energy and industrials to neutral**

We expect the next few months to be tricky for global equities. The oil price is likely to remain high, and is already starting to affect consumer confidence in the US and Europe. Cyclical indicators are high for this stage of the cycle (the US ISM rarely stays above 60 for more than a few months; it has been there for three months now) and are likely to fall back. Analysts' forecasts of 16% growth in EPS this year are based partly on the expectation that margins will rise. This seems unlikely with high commodities prices; more realistic margin assumptions might therefore trigger the first earnings downgrades in this cycle. Inflation is rising in the developed economies (although starting to stabilise in most emerging ones) and this could trigger the European Central Bank, especially, to raise rates as soon as April. The first rate hike, we find, typically puts pressure on equities.

So far, equities have shrugged off the bad news – partly because economic fundamentals have been good. But we think these concerns will cause a wobble over the next quarter or two. But this does not mean we think the bull market is over. Valuations remain exceptionally cheap, our economists forecast robust global growth this year and next, and interest rates in the US and even Europe will remain very low. We continue to forecast an 11% rise in MSCI All Country World Index this year (based on the PE multiple staying flat, and EPS growing in double digits) – which means the index has another 7% to go.

But in this environment, it seems prudent to take a little risk off the table. We still prefer **EM** over DM, despite EM's weakness in the first six weeks of 2011. Inflation in EM is coming under control, valuation is 10% cheaper than DM, growth higher and volatility recently lower. Within EM, we raise **China** to overweight and stay overweight **Brazil**, since inflation fears will fade. In DM, we prefer the **US** (where we stay overweight) over **Europe** or **Japan**, since growth is better and policy more supportive.

In sector allocation, we prefer unloved sectors less exposed to commodity inflation. We raise **financials**, especially in EM and the US, to overweight. We remain overweight **telecoms** (for yield and rising data usage) and **IT** (though we are wary on Asia which is losing in the shift to mobile from PCs). We cut **energy** and **industrials** to neutral after strong runs recently, but we still prefer **capex**-related cyclicals to **consumer** ones.

Garry Evans*
Strategist
The Hongkong and Shanghai Banking Corporation Limited
+852 2996 6916
garryevans@hsbc.com.hk

Peter Sullivan*
Strategist
HSBC Bank plc
+44 20 7991 6702
peter.sullivan@hsbcib.com

Robert Parkes*
Strategist
HSBC Bank plc
+44 20 7991 6716
robert.parkes@hsbcib.com

Steven Sun*
Strategist
The Hongkong and Shanghai Banking Corporation Limited
+852 2822 4298
stevensun@hsbc.com.hk

Daniel Grosvenor*
Strategist
The Hongkong and Shanghai Banking Corporation Limited
+852 2996 6592
daniel.grosvenor@hsbcib.com

HSBC strategy recommendations

Global market calls (benchmark: MSCI AC World Index; countries shown have a minimum weight of 0.5%)

Market	HSBC call current	HSBC call (previous)	Weight (%) MSCI AC	Weight (%) HSBC	Weight (%) Diff	Blue-chip index	Current level	Target end-2011 level	% from current
Americas									
US	Over	(Over)	42.7	45.0	2.3	S&P 500	1,310	1,430	9%
Canada	Under	(Under)	4.8	3.1	-1.7	S&P/TSX	14,029	14,500	3%
Brazil	Over	(Over)	2.1	5.0	2.9	Bovespa	67,533	80,000	18%
Mexico	Under	(Over)	0.6	0.4	-0.2	Bolsa	36,872	39,000	6%
Europe									
UK	Neutral	(Neutral)	8.4	8.4		FTSE 100	5,881	6,300	7%
France	Under	(Under)	4.0	2.0	-2.0	CAC 40	3,969	4,200	6%
Germany	Neutral	(Neutral)	3.3	3.3		DAX 30	6,934	7,500	8%
Switzerland	Under	(Under)	3.1	1.0	-2.1	SMI	6,319	6,700	6%
Spain	Neutral	(Over)	1.4	1.4		IBEX 35	10,756	11,500	7%
Italy	Neutral	(Under)	1.2	1.2		FTSE MIB	22,024	23,500	7%
Netherlands	Under	(Under)	1.1	0.0	-1.1	AEX	363	380	5%
Sweden	Over	(Neutral)	1.3	2.0	0.7	OMX	1,127	1,250	11%
Russia	Neutral	(Over)	1.0	1.0		RTS	2,028	2,200	8%
Eurozone	Under	(Under)	12.2	9.2	-3.0	EUROSTOXX 50	2,910	3,100	7%
Pan-Europe	Under	(Under)	27.2	22.9	-4.4	FTSE Eurofirst 300	1,124	1,200	7%
Asia Pacific									
Japan	Under	(Under)	8.0	6.0	-2.0	TOPIX	854	870	2%
Australia	Neutral	(Neutral)	3.3	3.3		S&P/ASX 200	4,794	5,200	8%
China	Over	(Neutral)	2.3	5.0	2.7	MSCI China	67	78	17%
Korea	Under	(Over)	1.9	1.5	-0.4	KOSPI	2,037	2,100	3%
Taiwan	Over	(Over)	1.5	3.0	1.5	TAIEX	8,576	9,800	14%
Hong Kong	Neutral	(Neutral)	1.1	1.1		Hang Seng	22,915	26,000	13%
India	Neutral	(Under)	1.0	1.0		SENSEX	18,351	20,000	9%
Singapore	Under	(Neutral)	0.6	0.0	-0.6	STI	3,043	3,200	5%
Other									
South Africa	Over	(Over)	1.0	1.0		JSE All-Share	31,648	35,000	11%
World (USD terms)									
Developed world	Under	(Under)	86.6	80.1	-6.5	MSCI DM	1,324	1,420	7%
Emerging world	Over	(Over)	13.4	19.9	6.5	MSCI EM	1,135	1,300	15%
All-countries world			100.0	100.0		MSCI AC	340	365	7%

Source: Thomson Reuters Datastream, HSBC

Sector	HSBC call current	HSBC call (previous)	Weight MSCI AC World (%)	Weight HSBC (%)	Weight Difference (% pts)	Industry preference
Energy	Neutral	(Over)	12.5	12.5		Oil & Gas
Materials	Neutral	(Neutral)	9.0	9.0		Mining
Industrials	Neutral	(Over)	10.9	10.9		Capital Goods
Consumer Discretionary	Under	(Under)	9.7	6.0	-3.7	Luxury Goods
Consumer Staples	Under	(Under)	9.0	5.0	-4.0	Beverages
Health Care	Under	(Neutral)	8.0	6.0	-2.0	Heath Care Equipment & Services
Financials	Over	(Neutral)	21.0	27.0	6.0	Diversified Financials
IT	Over	(Over)	11.6	15.0	3.4	Tech Hardware & Equipment
Telecom Services	Over	(Over)	4.6	6.0	1.4	Mobile Telecoms
Utilities	Under	(Under)	3.8	2.6	-1.2	Water Utilities
			100.0	100.0		

Source: Thomson Reuters Datastream, HSBC

Contents

Investment strategy

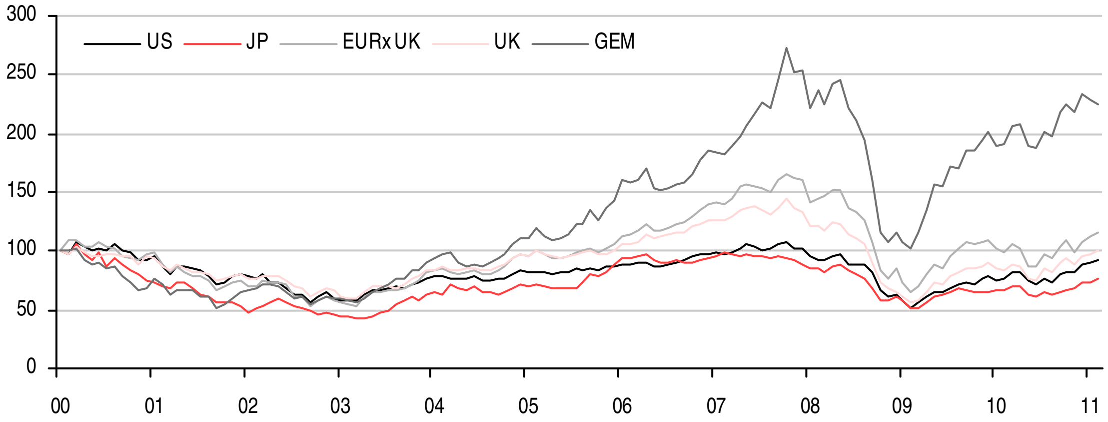
- Markets have so far shrugged off all the bad news that has been thrown at them this year
- But a combination of high oil prices, ECB rate rises, corporate margins under pressure and peaking cyclical indicators is likely to cause a wobble over the next quarter or two
- This doesn't mean the bull market is over. We still see global equities rising another 7% by year-end

Wobble ahead

Revolutions in the Middle East, oil at USD115 a barrel, rising inflation, the European Central Bank signalling it will raise rates (though most people don't think it needs to) … and then Japan's most devastating earthquake in 90 years. The fact that, despite all this unforeseen bad news, global equities are still up 4% y-t-d is witness to just how robust fundamentals are.

We wonder whether it can last, though. We wouldn't claim to know how the Middle East situation will play out, but it seems reasonable to assume that the oil price will remain high for a while. With gasoline now at USD3.65 a gallon in the US, for example, consumption seems likely to suffer. Global cyclical indicators are all at elevated levels – the US manufacturing ISM hit a 27-year high in February – and are likely therefore to fall back a little. Analysts forecast

1. Performance of major stock markets* (Jan 2000 = 100)



*MSCI indices in USD terms
Source: Bloomberg, HSBC

16% growth in EPS for the MSCI All Country World Index (ACWI) this year. But this is based on an assumption that net margins will expand further (even in the US, where they are at a 50-year high). With rising raw materials prices, is this possible? If not, it means we may see the first earnings downgrades in the current cycle.

Moreover, in Europe ECB President Jean-Claude Trichet has signalled that the bank will raise rates as early as April. Historically, the first rate rise in a tightening cycle is almost always somewhat negative for equities. We don't expect the Fed to raise rates until late 2012 but, when it ends QE2 in June, this could weigh on markets too (as happened when it allowed its balance sheet to shrink in mid-2010).

With this background, it seems prudent to take a little risk off the table for a quarter or two. Global equities have risen by some 30% since last July, and probably need a breather before taking the next leg up (they have about another 20% to go to regain the all-time high from 2007). We think that portfolio performance over the next few months, therefore, will be more about managing risk than about taking beta. This suggests that long-term structural growth stories in emerging markets (where the inflation threat is now well known and, anyway, subsiding) may be more attractive than cyclical stories in developed markets. The View section of this Quarterly lays out in detail our country and sector recommendations.

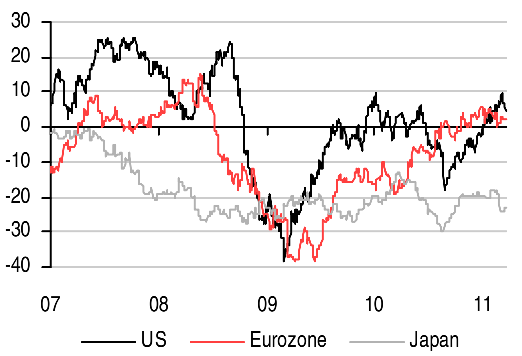
But this does not mean that we think the bull market, that started in March 2009 and which has so far seen global equities rise by more than 100%, is over. Valuations in almost every market globally remain very low by historical standards. Global economic growth looks pretty robust for this year and next (HSBC's economists forecast 3.2% and 3.5%, respectively) and, especially in the US, interest rates are likely to stay low, with a very steep yield curve. Even if analysts' earnings forecasts are a little too optimistic, we find it hard to imagine a scenario where growth actually turns negative. The high oil price is admittedly a worry but our analysis shows that it needs to reach around USD130 a barrel before, on historical relationships, it is likely to cause a global recession or bear market.

Equities always rise on a wall of worry. This time is no different. We still expect that MSCI ACWI will rise by 11% in 2011 – which means it has another 7% to go. Our target assumes PEs will not derate any further and that EPS growth comes in at around 10-12%. Those still seem reasonable assumptions.

Mid-cycle peak?

The past nine months have generally been good for global growth. HSBC's Surprise Indices, which monitor whether high-frequency economic releases are beating or missing economists' forecasts, have shown strong upward surprises in most major markets since the "soft patch" in mid-2010 (Chart 2) – although there have been some signs of data missing expectations since about February, especially in the Eurozone and Japan. These indices generally have a strong correlation with stock market performance.

2. HSBC Surprises Indices



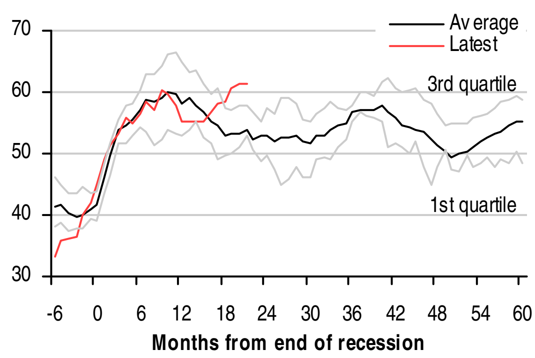
Source: HSBC

Can surprises stay this positive over the next few months? We doubt it.

Cyclical indicators to turn down?

For one thing, cyclical indicators are approaching historically high levels. The German IFO, with a history going back to 1991, has been hitting record highs since November last year, before falling back a fraction in March. The US ISM hit 61.4 in February (before falling back slightly to 61.2 in March) – its highest level since December 1983. It has now been above 60 for three months. As Chart 3 shows, the ISM is tracking well above its normal level at this stage of a recovery.

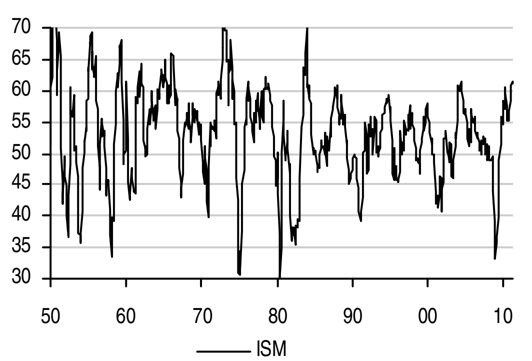
3. US manufacturing ISM after end of recessions (1950-2011)



Source: Bloomberg, HSBC

The current level of around 61 is roughly where the ISM has typically peaked in the past 25 years (see Chart 4).

4. US manufacturing ISM



Source: Bloomberg, HSBC

Moreover, it normally stays above 60 only for a few months at a time. Table 5 shows episodes since 1950 where the ISM went over 60 and how long it stayed there (we allowed it to dip briefly below 60, as long as this was for no more than two months and it did not fall below 58).

5. How long did US manufacturing ISM stay over 60

	Start date	End date	Months>60	Max value reached
	Feb-50	Mar-51	14	77.5
	Aug-52	Aug-52	1	60.4
	Dec-54	Jan-56	14	69.5
	Oct-58	Jul-59	10	68.2
	Jan-60	Jan-60	1	61.5
	Aug-61	Mar-62	8	64.2
	Mar-64	May-65	15	64.9
	Sep-65	Apr-66	8	65.8
	Jul-66	Jul-66	1	60.3
	Feb-72	Jun-73	17	72.1
	Aug-73	Mar-74	8	68.1
	Feb-76	Apr-76	3	61.5
	May-78	Nov-78	7	62.2
	Jul-83	Apr-84	10	69.9
	Sep-87	Dec-87	4	61.0
	Dec-03	Jun-04	7	61.4
	Mar-10	Mar-10	1	60.4
	Jan-11	Mar-11	3	61.4
Average			**7.28**	
Average post 1970			**7.13**	
Average post 1980			**5.50**	

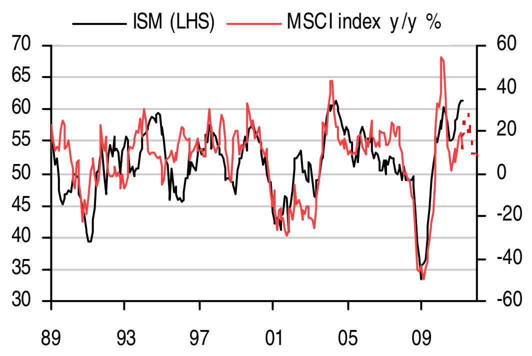
Source: Datastream, HSBC

Since the mid-1980s, the longest period the ISM has been above 60 was seven months (in 2003).

Before that, however, the survey was much more volatile and the headline ISM could stay over 60 for as long as a year. The reasons for the greater volatility in the ISM pre-1985 are partly technical: there were half the number of survey respondents, and inventories were less efficiently managed. But another reason is that economic expansions and recessions were larger in magnitude than in the 1985-2006 period. But because the 2007-09 recession was particularly large it is not impossible that the recovery in the ISM could be more powerful this time too. But, in our view, it is more likely that the ISM will fall modestly over the coming few months.

All this is important because the headline ISM has a very strong correlation with the y-o-y change in the MSCI ACWI, as shown in Chart 6. Over the past 10 years, the correlation coefficient is 0.84, and over 20 years 0.70.

6. ISM vs MSCI ACWI y-o-y



Source: Bloomberg, HSBC

By June, if ACWI stays at its current level, it will be up 27% from its level a year ago. That is roughly in line with the ISM at around 60. If the ISM were to fall back, then it seems likely that this would be somewhat negative for equities.

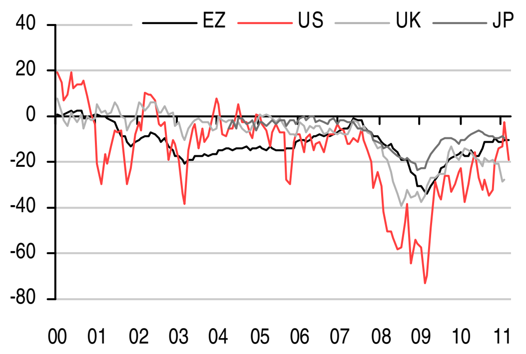
Remember, though, that the correlation is with the y-o-y change in the stock index. By the end of this year, if equities have not moved from their current level, they will be up only 3% y-o-y (shown in the chart as the dotted part of the red line) – consistent with the ISM only just above 50. So even a moderate pull back in the ISM would not be incompatible with equities continuing to make some further progress over the rest of the year.

… led by a dip in consumer confidence

The most likely trigger for cyclical indicators to turn down would be a deterioration in consumer confidence caused by high oil prices.

There are signs this is already happening. All four major markets showed declines in consumer confidence in the latest monthly data (Chart 7), with the US particularly worrying: expectations in the University of Michigan survey, for example, fell to 57.9 in March (the lowest level since early 2009) from 71.6 the previous month – although the Conference Board survey, while negative, does not look quite so bad. European consumer confidence is so far holding up better – in Germany it rose in March to a new cycle high.

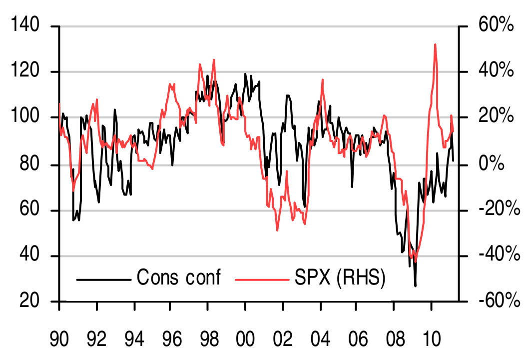
7. Consumer confidence indicators in major markets



Source: Bloomberg, HSBC (US rebased to 0, not 100, as base level)

Stock markets' correlation with consumer confidence is nothing like as clear as it is with business indicators such as the ISM: in the US the correlation of the S&P500 with Conference Board consumer confidence is 0.45 and with the University of Michigan survey 0.37 (Chart 8).

8. Conf Board consumer expectations v S&P500 y-o-y



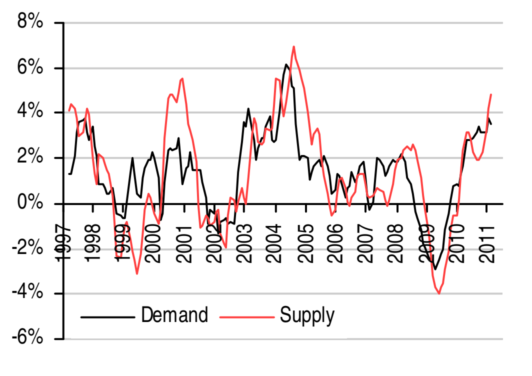
Source: Bloomberg, HSBC

Nonetheless, the current level of the Conference Board consumer expectations, 81.1, is compatible with the S&P500 doing no more than moving sideways, and any fall below 80 would suggest that stocks could fall in y-o-y terms.

The problem: oil

Until unrest began in Tunisia in mid-December, Brent crude oil was trading at around USD90 a barrel. That was probably a good reflection of demand and supply, both of which were growing roughly in line with global economic growth at about 3-4% y-o-y, at around 90m barrels/day (Chart 9). As the unrest spread to Libya (oil production: just over 2m b/d) and with speculators betting on it spreading to bigger oil producers, such as Saudi Arabia, Brent crude spiked to USD115 by the end of February and has stayed there since (although note that the US benchmark, West Texas Intermediate, remains about USD10 a barrel cheaper).

9. Y-o-y change in oil demand and supply



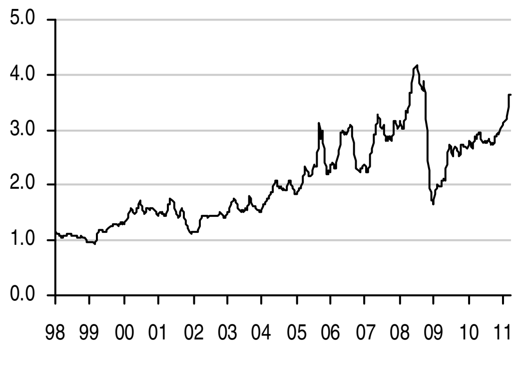
Source: Energy Intelligence Group

What happens next? HSBC's Middle East economists expect that most regimes in the region will eventually prove resilient as a result of a combination of substantial additional fiscal spending, the support of the military and disunity among the population. But, at the same time, they argue it is unlikely the region can simply return to the status quo ante and that, therefore, pressure for change will not dissipate quickly (see *Middle East Economics Quarterly: An unprecedented drive for change*, Q2 2011).

Given this, it seems wise to assume that the oil price will stay high for some time and could rise even higher if there is increased risk of turmoil spreading to the biggest oil producers: Saudi Arabia (about 10m b/d), Iran (5m), UAE or Kuwait (both about 3m).

The recent decline in consumer confidence around the world was most likely triggered by higher retail energy (and food) prices. In the US, for example, the average price of gasoline reached USD3.65 at the end of March, up from USD2.86 in November. This is now not far from the peak of USD4.17 reached in July 2008 (Chart 10).

10. Average retail price gasoline in the US (USD per gallon)



Source: Bloomberg

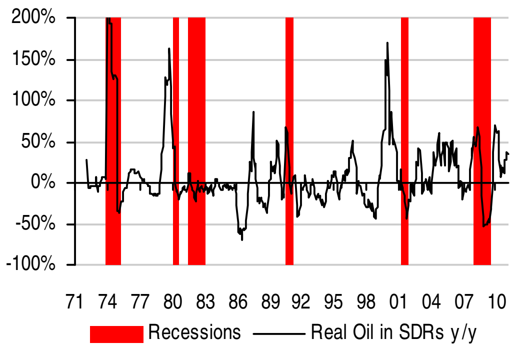
In Europe, the effects of tax make the recent rise even more extreme. In the UK, unleaded petrol cost GBP1.33 per litre on average in mid-March (the equivalent of USD8.09 a US gallon), up from GBP1.05 in October, and well above the previous high of GBP1.20 in July 2008 (Source: The AA). Petrol in Germany was also more expensive in March than at its peak in 2007.

The rise in oil prices is certainly a concern. As many economists have pointed out in the past few months, there is a strong link between spikes in the oil price (as happened in 1974, 1979, 1990 and 2008) and global recession.

But it is important to be careful about this relationship. Almost by definition, the oil price – which is, after all, mainly driven by global demand for energy products – will be at a high at the peak of an economic expansion and will fall as the economy goes into recession. It is also necessary to disentangle currency effects.

We think, therefore, that the cleanest way to look at the impact of high oil prices is to use the y-o-y change in the crude oil price calculated in Special Drawing Rights (SDRs) and adjusted for inflation. This is shown in Chart 11, with the shaded areas representing US recessions, as defined by the National Bureau of Economic Research (NBER).

11. Brent crude y-o-y change and US recessions



Source: Bloomberg, HSBC

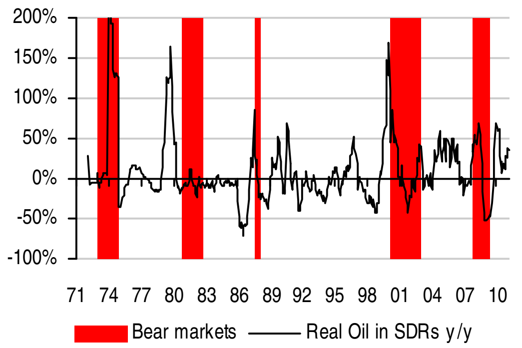
The two spikes in the oil price in the 1970s, triggered by supply shocks, clearly had a major negative impact on the economy and were at the least an important factor in causing the recessions that followed.

But on other occasions the causality was not so clear. For example, the crude price rose to a peak of 169% y-o-y in January 2000 (it went from USD10 to USD28 in a year) but the recession did not start until March 2001. The oil price rose along with a bubble in internet stocks, triggered by loose liquidity; it was the bursting of this bubble that most likely caused the recession, not the oil price. Also, sharp rises in the oil price in 1987, 1996 and 2004 did not cause recessions, although in each case oil rose by more than 50% y-o-y, a similar rise to 1990 and 2008, which did presage a recession.

Moreover, the recent run-up in the oil price is fairly modest compared to history. Brent crude has risen by only 36% y-o-y. This is not a level that has historically caused a significant economic slowdown. The chart suggests that a y-o-y rise of at least 75% and probably 100% is required. That would imply (taking last June's oil price as a base) crude at USD130 or USD150 a barrel.

The oil price (again using the y-o-y change in inflation adjusted SDRs) has a better correlation with equity bear markets (defined as a 20% or greater fall in US stocks), as shown in Chart 12. For example, the spike in 1987, though it did not cause a US recession, did help trigger a sharp decline in equities (Black Monday in October). The timing of the 2000-03 bear market is much more closely related to the peak in oil prices than is the recession: stocks peaked two months after oil did, the economy not for 14 months.

12. Oil price and US bear markets

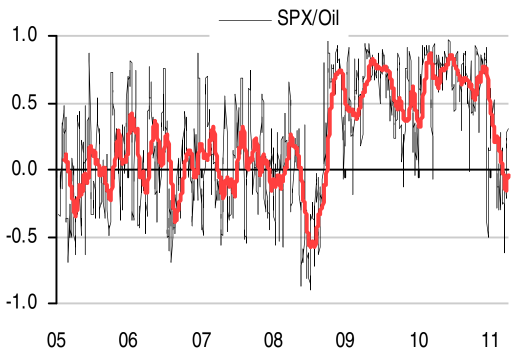


Source: Bloomberg, HSBC

But, again, an oil price rise of only 36%, as we have today, has historically not been enough to trigger a bear market in stocks. It seems, as with the economy, to need a rise of 65-75% or more.

It is particularly of concern, though, that the jump in oil prices this time is not demand driven. We generally find that the oil price is positively correlated with stocks – unsurprising since, in normal times, both are driven by economic growth and liquidity. But when the oil price is driven by something other than supply/demand fundamentals (speculation in 2008, risk of a supply shock this year), the correlation turns negative. As shown in Chart 13, this is what has happened since late last year. If the oil price continues to rise because of concerns about the Middle East situation and not because growth is strong, one has to conclude this would probably be negative for stocks.

13. 10-day correlation of changes in S&P500 and crude



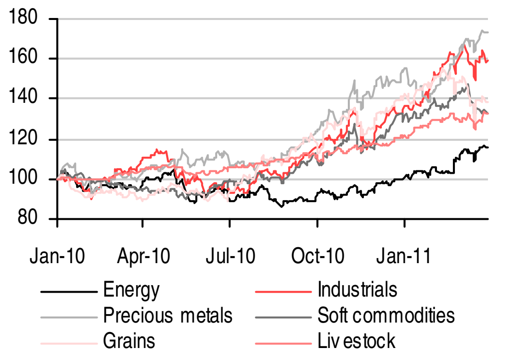
Source: Bloomberg, HSBC (Red line shows 30-day moving average)

Why this matters for earnings

And of course it is not just oil prices that have risen recently. The combination of a falling dollar, abundant global liquidity and, of course, strong economic growth, has pushed up all commodities prices over the past 12 months. In fact, energy prices have been relatively subdued compared to gold, industrial commodities such as cotton or soft commodities (coffee and sugar), as shown in CRB futures prices (Chart 14).

One implication of all this is that it could start to put corporate margins under pressure, as raw materials prices rise but weak consumer demand in the developed world means companies are unable to pass on the full impact.

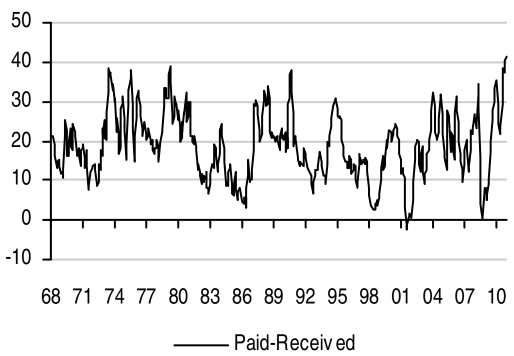
14. Commodities futures prices (Jan 2010 = 100)



Source: Bloomberg, HSBC

Business managers are beginning to report that input prices are going up much faster than output prices. In the Philly Fed survey, for example, the diffusion index of prices paid is 63.8, almost back to the mid-2008 peak, which was a 30-year high. Prices received, on the other hand, were only 22.6 – a normal level for this stage of a recovery. The gap between the two (Chart 15) is currently the highest since the series began in 1968.

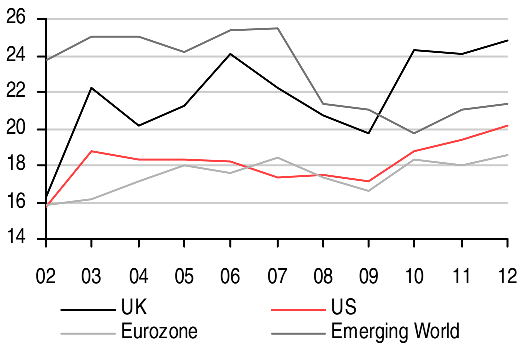
15. Philadelphia Fed, prices paid minus prices received



Source: Datastream, HSBC

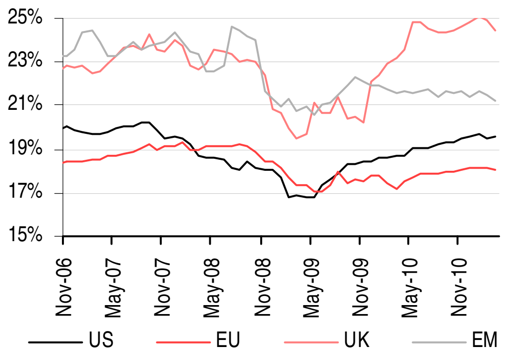
But, despite this, analysts are looking for margins in the US to expand healthily again this year. They also forecast margins in emerging markets to pick up strongly after three years of declines, and for Europe, including the UK, to see only a slight dip this year after a strong expansion in 2010 (Chart 16).

16. EBITDA margins – consensus forecast



Source: I/B/E/S, Datastream, HSBC

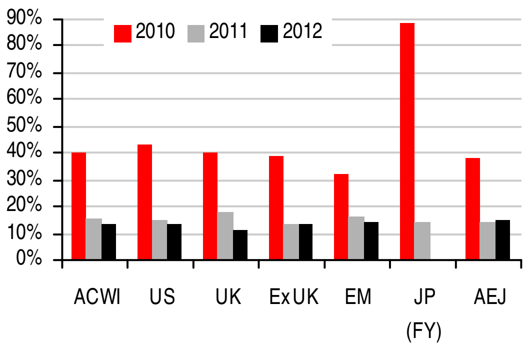
18. Forecast 12-month forward EBITDA margins



Source: I/B/E/S, Datastream, HSBC

Partly as a result of the positive margin story, consensus forecasts for 2011 EPS growth are fairly optimistic, expecting 16% growth for ACWI, with a narrow range between major markets and regions: varying from 13% for continental Europe to 18% (UK) – Chart 17.

17. Consensus forecasts of EPS growth



Source: I/B/E/S, Datastream, HSBC

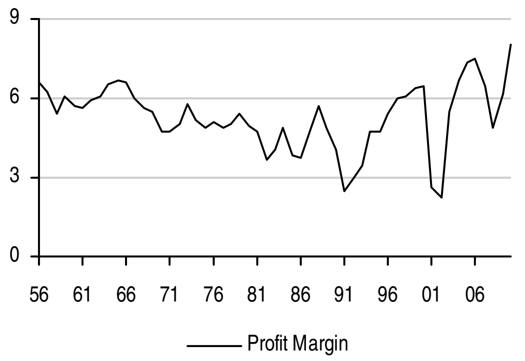
Can this really be possible? To us, the margin assumptions seem too optimistic. And, indeed, they have started to be revised down – but still only slightly – over the past two months. In the UK, for example, analysts until January were forecasting an EBITDA margin of 24.9% for this year, i.e. an improvement on 2010's 24.3%, but they have now lowered this to 24.1% for the year. As Chart 18 shows, in all major markets the first signs of a downgrading of margin expectations are coming through.

This was partly a result of some significant shifts apparent in the Q4 earnings season. In the US, for example, 66% of companies beat consensus forecasts at the revenue line and a similar number (70%) at the bottom line. But this was a very different pattern to the first three quarters of last year, where typically only 55-60% beat consensus at the top line, but as many as 80-85% did so at the bottom line.

In other words, revenue growth picked up towards the end of the year faster than analysts expected, but better margins no longer contributed to profit growth. In Europe, the picture was even more worrying in Q4: revenue surprises were not much different to the US: 59% of companies beat consensus but at the bottom line only 46% exceeded expectations.

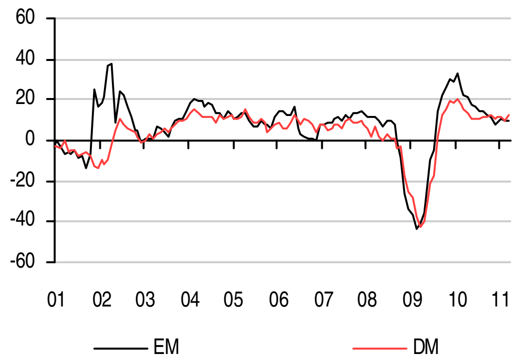
There is another reason why investors should not bank on margin expansion: margins are already very high by historical standards. In the US, for example, net margins last year reached 8.0%, ahead of the peak in the last cycle, 2006, of 7.6% and in 2000 of 6.5%. We could find reliable data going back only to 1956, but it is likely that last year's margins were the highest since the 1920s (Chart 19).

19. US net profit margin since 1956



Source: Fortune, Datastream, HSBC

20. Earnings momentum*: developed and emerging world



*Six-month change in 12-month forward forecast
Source: I/B/E/S, Datastream, HSBC

There are a number of reasons why margins might stay reasonably high, especially at the net profit level: lower taxes, especially tax-loss carry forwards from the red ink incurred in 2008-09, lower borrowing costs, more efficient inventory management and overseas production using cheaper labour. But it seems unlikely that margins can rise much – if at all – from the current level.

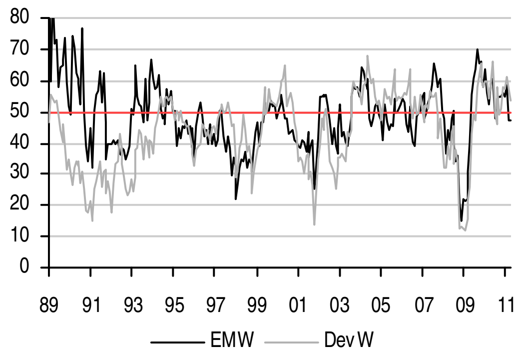
This will put more pressure on economic growth to buoy up earnings. If, in the US for example, nominal GDP grows this year by 5.7%, as HSBC forecasts, and margins turn out not to improve, is there any way that EPS can grow by 15%, as the bottom-up consensus currently forecasts? We do not expect earnings to come in massively below expectations – 10%-plus seems a reasonable assumption – but analysts' current outlook does seem a touch too optimistic.

If this view is correct, and margin expectations need to be notched down, it suggests we could see some (modest) earnings downward revision over coming months – the first in this cycle.

The momentum of earnings forecasts currently is still reasonably strong: the 12-month forward EPS forecast for the developed world has been revised up by 12%, and for emerging markets by 10%, over the past six months (Chart 20).

And the analysts' revision ratio – the percentage of earnings revisions which are upward revisions – has remained above 50 since mid-2009, although there are some signs of it dropping recently, especially in emerging markets (Chart 21).

21. Analysts' revision ratio



Source: I/B/E/S, Datastream, HSBC

The Q1 earnings season, which begins in the US around April 10, will be a crucial test. Expectations are relatively modest: the consensus expects 13% y-o-y EPS growth on 8% revenue growth, rather lower than the 38% and 8% achieved in Q4.

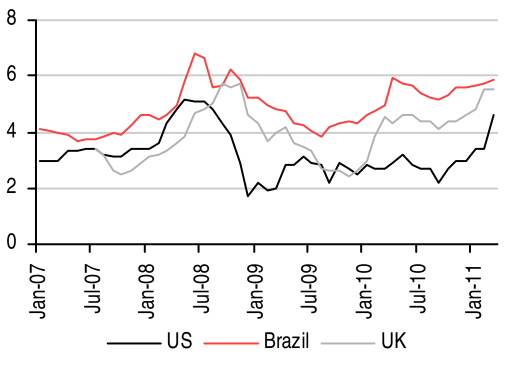
The risk of rising rates

Another consequence of rising oil and commodities prices is that it is pushing up headline inflation rates. This matters more for the Eurozone, where the ECB targets headline inflation (which should be "close to but below 2%"), than for the US, where the Fed focuses on core Personal Consumption Expenditures (PCE) and has a mandate that includes the goal of "maximum employment" as well as stable prices.

It is probably also less of a concern in emerging markets since the risk of inflation in these countries has been known for at least 12 months, and central banks have already acted to tackle it (with Brazil raising rates by 300bp, India by 200bp and China by 75bp, in addition to quantitative tightening measures) – even if some EM central banks are not as ahead of the inflation curve as we might like.

Charts 22 and 23 show various measures of inflation expectations for 12 months ahead. The first chart uses surveys where consumers are asked to forecast the actual inflation rate in a year's time. In the series in the second chart, consumers are asked about their expectations for inflation, but not the actual rate they expect, with the results presented as a diffusion index.

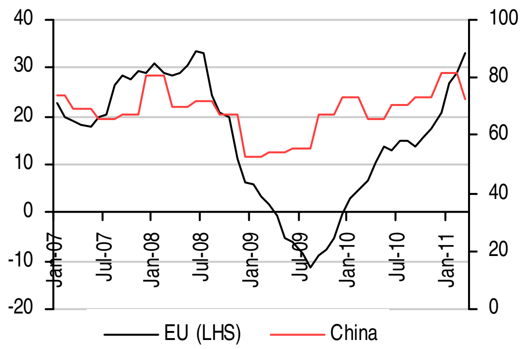
22. Inflation forecast, 12 months ahead (1)



Source: Bloomberg, HSBC

The picture is fairly clear. In the developed world, inflation fears have risen quite rapidly over the past few months. In the US, for example, the University of Michigan survey finds people expect inflation to be 4.6% in a year's time, up from 3.0% at the end of last year. Expectations have also jumped in the Eurozone. But in Brazil and China, the only major emerging markets for which we could find such surveys, the rise in inflationary expectations happened in 2010, and the surveys suggest that expectations in Brazil have now stabilised and in China they are even coming down.

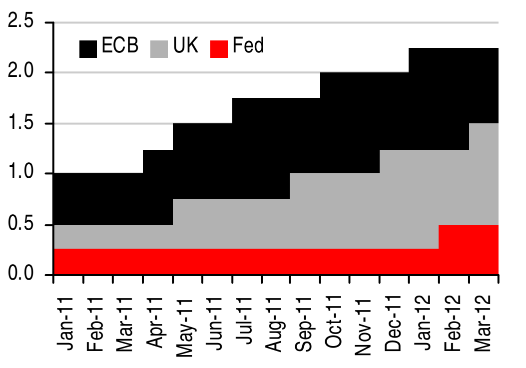
23. Inflation expectations, 12 months ahead (2)



Source: CEIC, HSBC

Why this matters for equity markets is that the likelihood of central banks raising rates in developed markets – particularly in Europe – is increasing, and the first rate rise in a tightening cycle typically puts pressure on equity markets.

24. Central bank policy rates implied by futures



Source: Bloomberg, HSBC

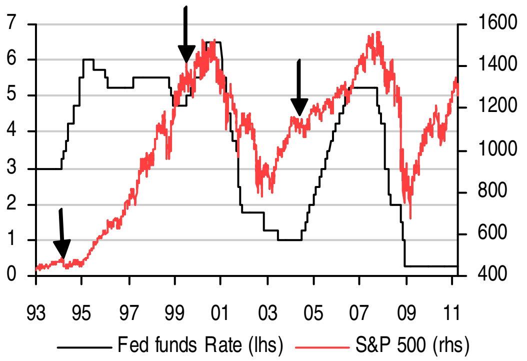
Futures markets are now implying that the ECB will raise rates by 25bp in April and by a total of 100bps this year (Chart 24). They also suggest more than a 50% probability of a hike by the Bank of England in May and an almost 100%

probability of one in June. Even the Fed is seen as likely to raise rates by early next year.

HSBC's economists are a little more cautious than this. They, too, see the ECB raising rates in April, with a total 75bp increase by end-2011. They do not, however, forecast the BoE to hike until Q1 2012 and the Fed until the end of next year.

What, historically, is the impact on equities of rate rises? In the US, the first rate hike has, over the past 40 years, invariably caused the stock market to correct a little for a couple of quarters. After the surprise hike in February 1994, for example, the S&P500 fell by 9% over the following two months and didn't recover its pre-hike level for a year (Chart 25). The rate hike in June 2004 was better flagged (the Fed had signalled it in its minutes in February) but the stock index still fell by 6% over the following two months and didn't make up the loss until October.

25. Fed fund rate and S&P500, 1993-2011



Source: Bloomberg, HSBC

Every initial rate hike since the early 1970s caused stocks to correct to some extent over the following three to six months (Table 26) but, with the exception of the secular bear market of the 1970s (when rates went up to tackle inflation, rather than because the economy was recovering), they usually rebounded within a year.

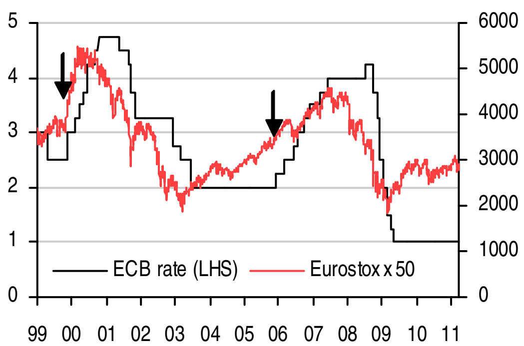
26. Behaviour of S&P500 after first rate hike

	SPX			
Date of first rate hike	Next 1m	3m	6m	12m
1/4/1973	-4%	-9%	-15%	-17%
12/1/1976	5%	-2%	-6%	-8%
5/2/1983	0%	0%	1%	0%
2/4/1994	-1%	-4%	-2%	2%
6/30/1999	-3%	-7%	6%	5%
6/30/2004	-3%	-3%	6%	4%

Source: Bloomberg, HSBC

Of course, we don't expect the Fed to raise rates for a while yet, so what about the Eurozone? Here the data, obviously, does not go back far. There have been only two initial rate rises since the ECB introduced its main refinancing rate in 1998. And after both these rate rises (November 1999 and December 2005), stocks performed strongly (Chart 27).

27. ECB policy rate and Eurostoxx50, 1999-2011

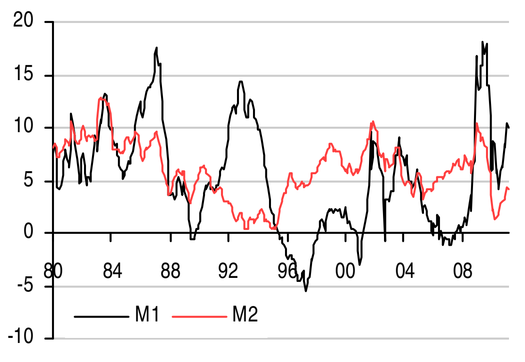


Source: Bloomberg, HSBC

We should not read much into this, however. On these two occasions, the ECB's rate rise came five and 18 months, respectively, after the Fed's, and the European stock markets had already digested the risk of rate hikes. If the ECB really raises rates in April it will be well in advance of the Fed, and – even though discounted by rates futures – we find it hard to think that it would not come as a negative surprise to European equities. This is particularly so since the peripheral Eurozone members continue to suffer from weak economic growth and high market funding costs, and the decision on a rate rise will be perceived to be taken in the interest of the core nations, especially Germany. It is worth remembering that, while Eurozone-wide CPI is running at 2.4% and German CPI 2.2% – which might justify rate rises – it is just 0.9% in Ireland.

But if the Fed does not hike rates until late 2012, does this mean that US equities are unaffected by worries about rate rises? Certainly, the Fed's accommodative stance is one reason why we remain overweight US equities (see The View section of this report for other reasons). But we don't think that even the US will get off scot-free. Even if the Fed does not raise rates, rising inflation will from time to time make the market worry that it might. HSBC's economists expect headline CPI to hit 3.2% by Q3. Money supply in the US is also showing some signs of a pick up in recent months, with M1 growth in February 10% y-o-y (Chart 28).

28. US money supply growth

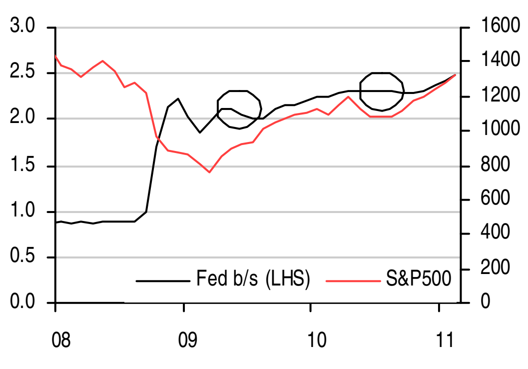


Source: Bloomberg, HSBC

And then there is the little problem of quantitative easing ending. The Fed has clearly signalled that the USD600bn of QE announced last November will continue until its scheduled completion in June. But, as economic fundamentals now stand, it seems unlikely to put in place a new programme (although the likelihood of a QE3, should the economy slow again, still represents a put option for the stock market, in our view).

Over the past two years, when the Fed's balance sheet has contracted at all – as it did slightly in June-July 2009 and July-September last year, for example – this had a deleterious effect on the stock market (Chart 29).

29. Fed balance/sheet and S&P500 2008-11



Source: Bloomberg, HSBC

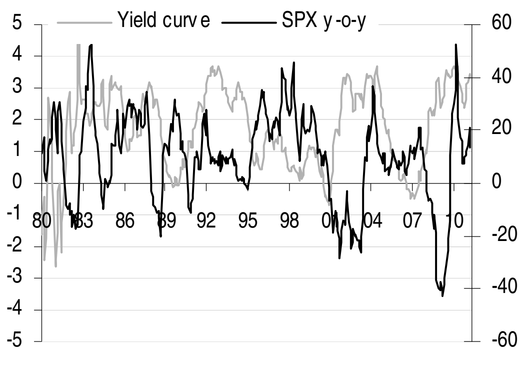
Wobble – but not a bear market

The above all sounds very bearish. But we should emphasise that we do not expect a bear market – defined as global stocks declining by 20% or more over multiple quarters.

The factors we mentioned above – high oil prices, a dip in cyclical indicators, some minor downgrades to earnings expectations and the first rate rises in Europe – are likely, in our view, to cause jitters in stock markets over the next few months, but we find it hard to see that they will tip equities into a period of sustained negative returns.

Even if interest rates in developed markets rise a little, they are still very low by historical standards. If, as the markets are discounting, the ECB does raise rates to 2% this year, that is still no higher than the previous record low in 2003. Yield curves are likely to stay fairly steep, with German 10-year Bunds currently yielding 3.3%. And, in the US, the combination of real GDP growth of 2.9% this year and 3.3% next with short-term rates at zero until Q4 2012 (as HSBC's economists forecast) still seems a very benign environment for equities. The yield curve in the US (10-years minus three-months) remains, at 330bp, close to an historical high – something that historically has been highly amenable to equity performance too (Chart 30).

30. US yield curve (10Y-3M) and S&P500 y-o-y change (%)

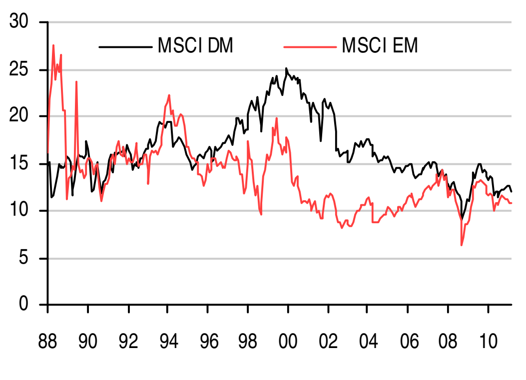


Source: Bloomberg, HSBC

Moreover, the worries we expressed earlier on cyclical indicators or earnings were not that they would turn negative, merely that the *rate of growth* was likely to slow. The current US bull market has so far lasted only 24 months. That is very short by historical standards. The average length of bull markets in the US since 1930 is 63 months; the shortest, in 1966-68, lasted 26 months. It would be unusual for this bull run to peter out as this early stage.

Not least, valuations are highly supportive whichever measure one looks at. On a simple 12-month forward PE (Chart 31), for example, the developed world is currently on 12.1x; it has been substantially cheaper than this since the MSCI indexes started in 1988 only for a few months in late 2008, and its way below its long-run average of 16.2x. The emerging world is not quite as cheap relative to history but, on 10.8x, it remains at a discount to DM and is well below the historical average of 13.6x.

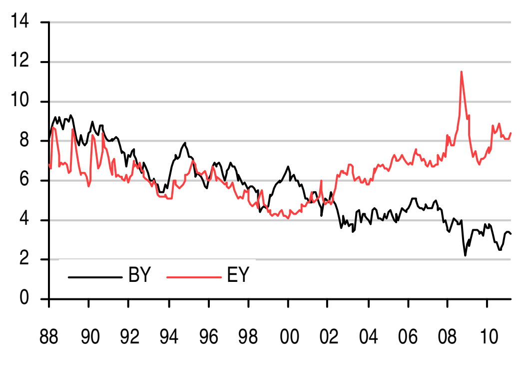
31. 12-month forward PE, MSCI indexes



Source: I/B/E/S, Datastream, HSBC

And these simple numbers do not, of course, take into account how much lower bond yields (the discount rate) are than they have been historically. Looked at on the basis of earnings yield versus the risk-free rate (Chart 32), the current earnings yield (the inverse of the PE) of 8.1% is more than 5 percentage points above the risk-free rate (which we can consider to be 10-year US Treasuries). The gap has been greater than this only in 14 months in the past 23 years.

32. MSCI ACWI earnings yield and 10-yr US Treasury yield



Source: I/B/E/S, Datastream, HSBC

Trend-adjusted PEs

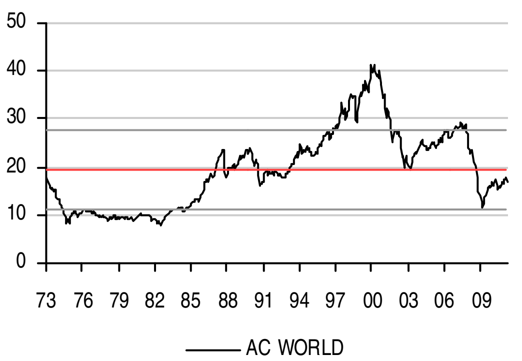
The evidence that valuations are very low by the standards of the past 25 or so years seems so compelling that we wonder whether we need to use any more sophisticated valuation techniques to show this.

But one argument we hear often is that PEs look cheap only because earnings are forecast to grow well above historical trend rates. Those who argue this often prefer to use multiples based on historic earnings, for example the current price divided by the moving average of 10-year real historical earnings (sometimes called the cyclically adjusted PE, CAPE, or the Graham and Dodd PE).

We have pointed out before problems with the CAPE (it is distorted when there were periods of sharp earnings declines, such as 2008-09, and says more about the pace of earnings growth over the past few years than about the current level of stock prices).

Our preference is to use a trend-adjusted PE (or TAPE), where we compare the current price with where EPS would be if it was growing at the trend rate. (There are various ways one could calculate the trend. Our preference is to use 30 years of earnings in real terms, and calculate the trend using the weighted least-squares method, which reduces the impact of exceptional years).

33. Trend-adjusted PE for MSCI ACWI



Source: Datastream, MSCI, HSBC

The TAPE for MSCI ACWI is shown in Chart 33. Currently at 16.8x, it is well below the long-run average of 19.5x (and especially below the post-1988 average of 24.5x). This is true of every region (Table 34). The discount of the US and Europe to their long-run averages looks fairly similar. Only EM, for which we have data going back to only 1995, looks at all expensive particularly compared to the past 10 years.

34. TAPE for major regions/countries versus history

	Current TAPE	Long-run average	Current v long-run	10-yr average	Current v 10-yr avg
ACWI	16.8	19.5	-14%	22.8	-26%
US	16.2	18.7	-14%	21.5	-25%
Europe	12.9	15.3	-16%	17.4	-26%
UK	11.5	13.1	-13%	13.9	-17%
Japan	26.4	41.2	-36%	53.4	-51%
EM	16.1	16.5	-3%	14.4	12%

Source: Datastream, MSCI, HSBC

It is true that TAPEs were lower in the 1970s, when for the world index they were more typically on 10x trend earnings. (A simple forward PE for the US in the 1970s conveys a similar message.)

But those were exceptional years, with high inflation, ineffectual central banks, and malaise about the future of the world economy. Virulent bears might say the same thing about the world today. But we beg to disagree. To us, it seems more likely that the world is slowly emerging from the Great Recession of 2008-09. While there are some short-term risks on the horizon, a good deal of those risks are reflected in current valuations.

The View

- Headwinds will make progress difficult over the shorter term but the bull market is still intact; we target global equities to return 7% out to end-2011
- Emerging markets to outperform developed as inflation concerns begin to subside; we raise Asia Pacific ex-Japan to overweight, stay overweight US and underweight Europe and Japan
- We prefer unloved sectors that are less exposed to commodity price inflation; we raise financials to overweight; stay overweight telecoms and information technology

Short-term caution, but bull market still intact

With headwinds picking up and tailwinds showing signs of fading, we expect the global equity market to struggle to make further progress in Q2, as described in the Investment Strategy section of this Quarterly. However, we are not calling an end to the two-year bull market and see the MSCI All Countries World Index (ACWI) delivering a 7% return (USD terms) by end-2011.

More headwinds, less tailwinds

In terms of the headwinds, the market continues to fret about a whole host of issues, ranging from rising commodity prices (in particular oil), inflation, rising interest rates and the end of QE to the geopolitical tensions in North Africa and the Middle East, the Japan earthquake tragedy, Eurozone peripheral debt and fiscal austerity.

From a strategy perspective, this very high "wall of worry" is no bad thing if it is reflected in the valuation, which we believe it is, with the global equity market trading on a 12-month forward PE multiple of around 12x versus a long-run average of over 16x. And this should limit the downside risk to equities even though we expect uncertainty on many of these issues to linger for a while longer and weigh on sentiment.

In terms of the tailwinds, the reacceleration in business cycle indicators looks to be coming to an end and we cannot rule out a soft patch over the summer. In addition, the corporate earnings driver may not play as prominent role in supporting the bull-run as it has done over the past two years, with the upgrade cycle starting to fade. The Q1 earnings season will give a good sense of this.

The monetary policy tailwind is also starting to look less supportive in developed markets, with the ECB set to raise rates and the possibility of no further QE in the US.

Of course, in the emerging markets (EM) world, monetary policy has acted as a headwind for equities for the past 6-12 months. Whilst we are not yet at the peak in the rate cycle, we are getting close to it in certain countries such as Brazil where we have already seen 300bp of rate hikes (as well as other tightening measures) over the past year. Any end in sight to the tightening cycle should act as a positive catalyst for these markets.

In summary, we see a tricky few months ahead with the market struggling to make further progress until we get some further visibility on the areas of concern. However, we believe the bull market is intact and that very supportive valuations will limit the downside risk.

Our key strategic recommendations, including any changes we have made, are summarised in bullet points below, with the following sections providing the reasoning behind these calls.

Strategy in bullets

- Global equities to rise by 7% by end 2011
- Overweight EM and raise Asia Pacific ex-Japan to overweight (from neutral)
- Stay overweight the US and underweight Europe and Japan
- Prefer unloved sectors less exposed to commodity price inflation
- Raise financials to overweight (from neutral)
- Stay overweight telecoms and technology
- Energy cut to neutral and health care to underweight (from neutral)
- Stay underweight consumer discretionary, consumer staples and utilities

HSBC

Scorecards

1. HSBC market scorecard

	Monetary policy/liquidity	Growth surprise	Loved / Unloved	Newsflow / shocks	Valuation	Dividend yield	Long-term story	Weighted average	HSBC call
	20%	*20%*	*10%*	*10%*	*10%*	*10%*	*20%*	*100%*	
China	0	0	-2	1	1	-1	3	0.45	O
Brazil	0	-1	1	1	-2	1	2	0.30	O
Sweden	-1	1	1	1	-1	0	0	0.10	O
Taiwan	0	-3	2	-2	1	2	2	0.05	O
US	2	0	-1	1	-2	-2	0	0.00	O
Australia	-1	-1	1	-1	0	2	1	0.00	N
Hong Kong	1	0	-1	-1	-2	0	1	0.00	N
South Africa	0	0	2	0	-3	-1	1	-0.00	N
Russia	-1	1	1	-1	0	-3	1	-0.10	N
Germany	-1	1	-1	-1	0	1	0	-0.10	N
Italy	-1	0	1	-1	3	2	-2	-0.10	N
United Kingdom	0	-2	1	-2	1	2	0	-0.20	N
India	-2	0	-1	0	-1	-3	3	-0.25	N
Spain	-2	-1	1	-1	2	3	-1	-0.30	N
Canada	0	0	2	0	-3	-2	0	-0.30	U
France	-1	0	-2	-1	2	2	-1	-0.30	U
Mexico	0	0	1	-1	-3	-2	1	-0.30	U
Switzerland	-1	-1	2	-1	-1	1	0	-0.30	U
Netherlands	-1	0	0	-1	0	0	-1	-0.50	U
Singapore	-1	-2	-2	-1	-1	2	1	-0.60	U
Korea	-1	-2	-1	-2	-1	-3	2	-0.85	U
Japan	0	-2	-1	1	1	-2	-2	-0.90	U

Source: HSBC

2. HSBC sector scorecard

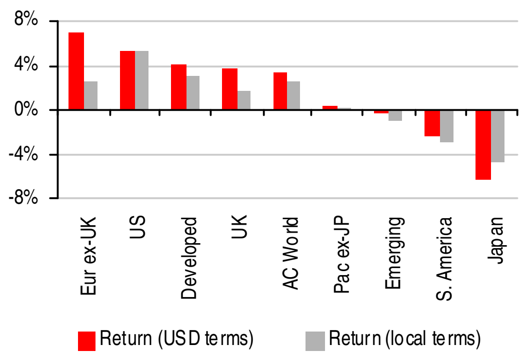
	Monetary policy/liquidity	Growth surprise	Loved / Unloved	Newsflow / shocks	Valuation	Dividend yield	Long-term story	Weighted average	HSBC call
	20%	20%	10%	10%	10%	10%	20%	100%	
Telecommunications	0	1	2	0	1	3	0	0.8	O
Financials	1	1	2	1	1	1	-1	0.7	O
Information Tech	0	0	1	0	2	-3	1	0.2	O
Energy	0	0	1	1	-2	-1	1	0.1	N
Materials	0	0	-1	1	-1	-2	2	0.1	N
Industrials	0	1	-2	1	-2	-1	1	0.0	N
Consumer staples	0	0	1	0	-1	2	-1	0.0	U
Health Care	0	-1	2	-1	2	1	-1	0.0	U
Utilities	-1	0	0	-1	-2	3	0	-0.2	U
Cons Discretionary	-1	-1	0	-1	0	-3	1	-0.6	U

Source: HSBC

Regional/country allocations

In this section we give an overview of our regional/country allocations; these should be read alongside the market scorecard (Table 1) which is the framework behind these calls.

3. MSCI regional performance: Q1 2011

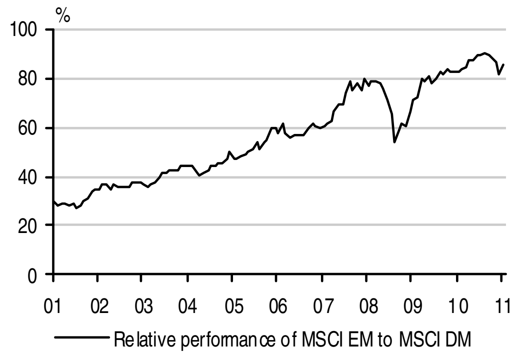


Source: Thomson Reuters Datastream, MSCI, HSBC

Overweight EM

Our overweight call on EM struggled in the first half of Q1 as inflation concerns, geopolitical tensions and fund flows combined to outweigh the growth premium on offer in the EM world. Since then, normal service has been resumed and EM has started to outperform once again (see chart 4).

4. Emerging markets have started to outperform once again

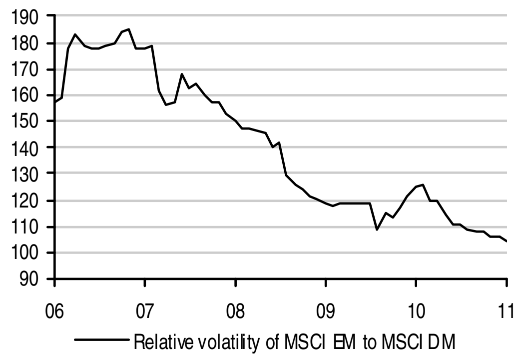


Source: Thomson Reuters Datastream, MSCI, HSBC

We remain confident that EM will outperform DM during 2011 and see the early Q1 pullback as a correction rather anything more sinister. Both the developed world and the emerging world look attractively valued in absolute terms. But, interestingly, on a relative basis EM continues to trade at a discount – 12-month forward PE multiple of 10.8x versus developed on 12.1x.

In the past this hasn't been particularly surprising given the higher relative volatility of EM markets. But as we can see from chart 5, EM volatility has been trending lower and is now only marginally above DM on a one-year rolling basis. Moreover, on a shorter-term (30-day) basis, volatility is currently *lower* in EM than in DM.

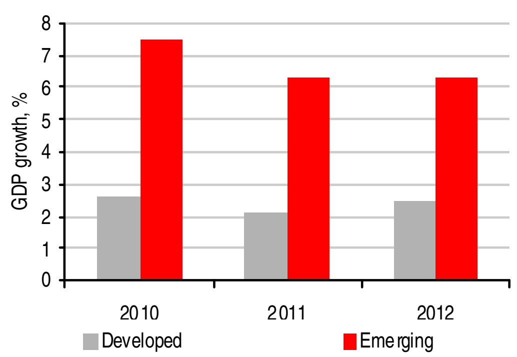
5. Emerging markets volatility* now broadly in line with DM



Note: *Historical volatility calculated over a rolling 250 day period
Source: Thomson Reuters Datastream, MSCI, HSBC

Therefore, we now have a situation where EM has a far superior growth outlook (see chart 6), the risk premium (measured by relative volatility) is broadly in line with DM and yet the EM block continues to trade at a discount (currently 10%).

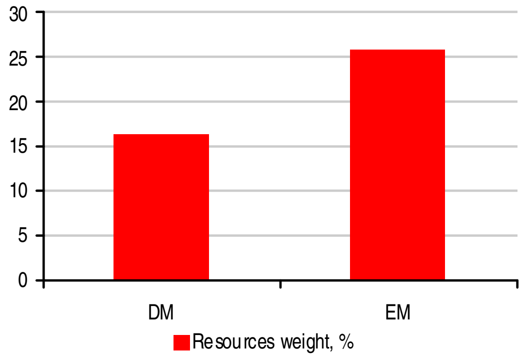
6. Far superior growth outlook in EM (HSBC forecasts)



Source: HSBC

Other positive attributes are the higher resources weighting in EM (chart 7) and the fact that investors are still structurally underweight EM.

7. EM world is more hedged against rising commodity prices



Source: Thomson Reuters Datastream, MSCI, HSBC

The MSCI EM index has a weighting of 26% in resources (energy and mining) versus a 16% weighting in the DM index. This will provide more protection from commodity price inflation.

The reason investors are still structurally underweight EM (see table 8) can be primarily explained by the benchmark being followed. Most global funds use MSCI World or MSCI EAFE which both have a zero weighting in EM. How long investors will want to follow funds with no EM exposure remains to be seen. We expect fund flows to remain favourable to EM, especially when we consider the points made above regarding growth, valuation, and relative volatility.

8. Benchmarks used by global funds

	Number	%	Net assets USDm	%
MSCI ACWI	91	11%	47,593	6%
MSCI Wrld or EAFE	431	51%	381,483	48%
Other Developed	112	13%	270,517	34%
Other Emerging	217	25%	91,997	12%
Total	**851**	**100%**	**791,590**	**100%**

Source: EPFR, HSBC

The final point we want to make on EM is that investors' concerns on inflation may begin to fade from here. Rising rates of inflation and the inevitable monetary policy reaction have been a key source of concern for investors through Q1. But we may be past the point of maximum pessimism on this issue. Indeed, our own economists feel the end is now in sight in terms of the tightening cycle in two of the most important countries in the EM world – Brazil and China. If this is indeed the case then it removes a key headwind for these markets.

Referring to our HSBC market scorecard on page 20, we can see that we are overweight both Brazil and China (raised from neutral). We are also closing out our underweight on India. And, even though it is not big enough to make our country universe, our EM team's overweight on Turkey is also worth highlighting. The key points why are set out in the following bullets:

- **China** (raised to overweight from neutral)
  Recent economic data indicate that growth is moderating, which suggests that a soft landing is possible. We turn positive on the China market in anticipation of the tightening cycle coming to an end. China should also benefit indirectly from an end to QE in the US, as it makes excessive inflows and hence overheating less likely.
- **Brazil** (stay overweight)
  The market looks well positioned in both the commodity and the domestic sectors. The commodity sector looks attractively valued when viewed alongside the elevated oil price and its global peers. For domestic Brazil, the key driver relates to the Brazilian rate cycle, and with 300bp of hikes already behind us we now see an end in sight and do not expect a further leg up in rate expectations. This should allow investors to refocus on the very strong secular growth story that Brazil represents.
- **India** (raised to neutral)
  Recent underperformance (10% below global

peers) leaves the risk-reward trade-off more evenly balanced, and we upgrade India from underweight to neutral. On the positive side, the country's long-term growth prospects still look good but we fear that near-term uncertainties on several fronts (inflation, political uncertainty, global macro risks) will lead to muted performance.

- **Turkey** (overweight)
  The global backdrop has scope to become more supportive for Turkish equities and we believe the consensus is overly bearish. The market has been hit particularly hard by the elevated oil price, so all other things being equal, any softening here should trigger renewed interest in Turkey. On policy, the general consensus has become that Turkish policy-makers have got behind the curve on policy and from here we see a decent chance that they will begin to address investor concerns.

US (stay overweight)

Our overweight on the US has worked well in Q1 to date (28 March), with the market registering a 1.5% outperformance versus the MSCI AC World index. And not a lot has changed in terms of why we like this market – the growth outlook is stronger and the monetary and fiscal policy backdrop more supportive than other regions in the developed world.

Dollar weakness (down 5% versus the Euro in Q1) should provide further assistance to US

9. US Q1 results season: bottom-up I/B/E/S consensus forecasts (S&P 500 universe)

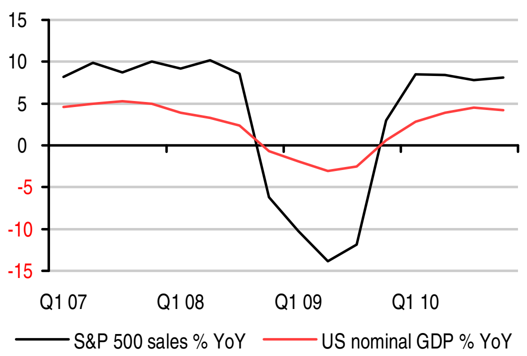
	Earnings value USDbn	EPS y-o-y %	Sales value USDbn	y-o-y %
Energy (41)	**28.1**	**27**	**365**	**23**
Materials (30)	**7.7**	**38**	**87**	**13**
Industrials (59)	**18.6**	**26**	**252**	**6**
Capital Goods (39)	14.8	26	197	6
Commercial Servs & Supplies (11)	0.9	2	14	5
Transportation (9)	3.0	35	41	10
Consumer Discretionary (79)	**17.4**	**10**	**299**	**7**
Automobiles & Components (4)	2.3	23	45	9
Consumer Durables & Appl (15)	1.5	10	25	6
Hotels, Rests & Leisure (13)	3.2	5	27	7
Media (16)	4.9	12	66	9
Retailing (31)	5.5	6	136	5
Consumer Staples (41)	**20.6**	**6**	**363**	**6**
Food & Staples Retailing (9)	5.9	1	223	5
Food Beverage & Tobacco (26)	10.5	7	105	7
Household & Person Prod (6)	4.2	9	35	5
Health Care (52)	**27.6**	**-1**	**283**	**4**
Health Care Equip & Servs (30)	8.4	-4	198	4
Pharmaceuticals & Biotech (22)	19.2	0	85	3
Financials (80)	**33.9**	**16**	**262**	**-3**
Banks (16)	6.1	112	42	-1
Diversified Financials (26)	19.2	-0	125	-9
Insurance (22)	7.9	15	87	4
Real Estate (16)	0.7	171	9	19
Information Technology (75)	**40.3**	**16**	**239**	**12**
Software & Services (33)	19.7	21	91	9
Tech Hardware & Equip (23)	14.9	16	117	15
Semiconductors & Equip (19)	5.7	1	31	13
Telecommunication Servs (9)	**4.9**	**-1**	**75**	**2**
Utilities (32)	**7.5**	**-1**	**80**	**4**
S&P 500	**206.6**	**13**	**2,305**	**8**
S&P 500 ex-Financials	**172.8**	**13**	**2,043**	**9**
S&P 500 ex-Energy	**178.5**	**11**	**1,702**	**4**

Source: Thomson Reuters Datastream, HSBC

corporations and help them to continue to outperform their European counterparts. Note that we saw 70% of US companies beat EPS expectations in Q4 versus a far less impressive 45% in Europe.

Finally, the regulatory backdrop appears to be more supportive for the banks sector in the US than elsewhere (for example in the UK). And, as a result, dividend hikes and buybacks are back on the agenda. For example, JP Morgan raised its dividend 400% (from a low base) and implemented a USD15bn share buyback program. This is in stark contrast to Europe where the risk of additional capital being raised remains very much in focus.

10. S&P 500 (non-financials) sales versus nominal GDP growth



Source: Thomson Reuters Datastream, HSBC

On valuation, the US market is trading on a trend adjusted price/earnings (TAPE) multiple of 16x versus a long-run average of 19x. Excluding a brief period in 2009, this metric is currently at around a 25-year low. It follows that the valuation by no means looks excessive but, with investor risk appetite remaining very fragile, we are not expecting a re-rating any time soon.

On earnings, we continue to detect a great deal of investor scepticism regarding the 2011 outlook. The consensus continues to look for +15% and, interestingly, this forecast has been rock solid for the past six months.

We believe that this forecast is in the right ball park. Too much focus continues to be placed on domestic GDP and, as we can see in chart 10, it is worth remembering that S&P 500 sales growth has recently had a gearing of 2x nominal US GDP growth. It follows that our forecast of 5.7% nominal GDP growth in 2011 could result in an S&P 500 growth figure of 10%.

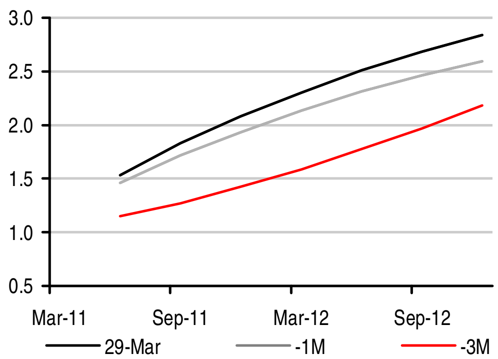
Operating margins may come under pressure but when we also consider tax-losses being carried forward, share-buybacks and falling interest costs, a double-digit EPS growth estimate does not look unrealistic.

We stay overweight on the US and our S&P target of 1,430 for end-2011 indicates 9% upside.

Europe (stay underweight)

Our underweight position on European equities has not worked in Q1 to date, with the MSCI Europe index outperforming the AC World Index by 2.8%. However, this has been flattered by euro strength and in local currency terms the region performed in line with the global market.

11. Eurozone rate expectations are rising (Eurex-3 month Euribor)



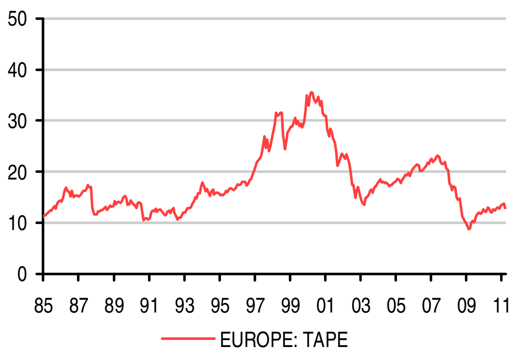
Source: Thomson Reuters Datastream, HSBC

We are maintaining our underweight position. The monetary policy backdrop is looking less supportive as we can see in chart 11. And the ECB has given its coded message (the term "strong vigilance") for a rate rise in April.

Earnings were mixed in Q4 and may well be again in Q1, with the top-line and margins under pressure from fiscal austerity and rising commodity prices respectively. A strong euro is also going to make life more difficult for Eurozone exporters. And let's not forget that peripheral debt concerns are still lingering as highlighted by recent events in Portugal, where the government resigned after parliament turned down austerity measures.

On the positive side, the core continues to perform well and, in the absence of the recent rise in the oil price, our economists would have been *upgrading* their Eurozone growth numbers.

12. Europe TAPE is trading close to a 20-year low



Source: Thomson Reuters Datastream, MSCI, HSBC

Valuations also remain supportive and are clearly factoring in a lot of negativity. We estimate that the European market is trading on a trend adjusted PE of 12.9x versus a long-run average of 15x (see chart 12). This should limit the downside risk and our FTSE Eurofirst 300 index target for end-2011 indicates a further 7% upside.

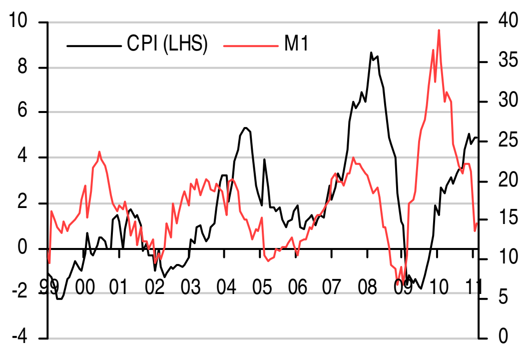
Asia ex-Japan (raise to overweight from neutral)

At the turn of the year we cut Asia ex-Japan to neutral. Our key concerns related partly to valuation but primarily to inflation risk. However, the recent underperformance combined with an end being in sight to the China tightening cycle warrant a more positive position in our view and we raise the region back to overweight.

The region struggled in Q1, underperforming the world index by 3.3% (in USD terms), and this appears to have taken the froth out of certain markets in the region – most notably India which has underperformed by 10%.

More significantly we may be approaching the end game in the Chinese tightening cycle. We expect only one more PBoC hike in April and this already appears to be factored into market expectations. Tightening has already brought down money supply growth sharply, and CPI tends to follow this with a lag (chart 13). If we are correct on this and the authorities have engineered a soft landing then it should allow investors to re-focus on the secular growth story.

13. China: lowing money supply likely to bring inflation down



Source: Bloomberg, HSBC

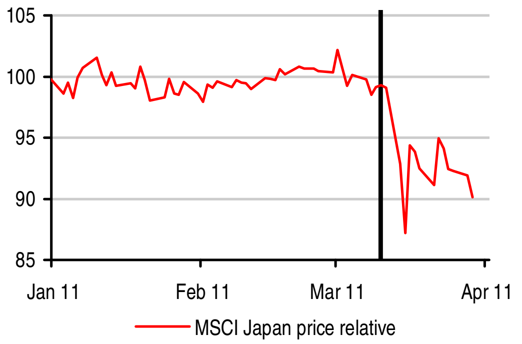
As is the case elsewhere, the biggest risk appears to relate to the oil price and the risk to the global consumer. As such, we believe that this quarter it is prudent to limit exposure to export-oriented markets, and prefer exposure to domestic oriented industries across Asia, especially in markets where interest rate risks are relatively low. Central banks across the region have reacted very differently to the threat of inflation in recent quarters, with some very vigilant (China) and others slow to raise rates (India).

As such, we cut export oriented markets such as Korea (to underweight from overweight) and Singapore (to underweight from neutral). Valuations look better in China (upgrade to overweight from neutral) and not as expensive now in India following its sharp underperformance in Q1 (upgrade to neutral from underweight).

Japan (stay underweight)

Japan was the worst performer in our regional universe in Q1. The market underperformed by 10%, clearly not helped by the tragic earthquake and subsequent nuclear crisis (see chart 14).

14. Japan has underperformed sharply post the earthquake



Source: Thomson Reuters Datastream, MSCI, HSBC

In a recent report – see *EI-Equity Insight: How markets behave after catastrophes*, 18 March 2011 – we revisited our underweight position on Japan and concluded that whilst there is a chance that the disaster could act as a catalyst for real system change we will need to start to see some evidence of this for us to consider changing our secular underweight.

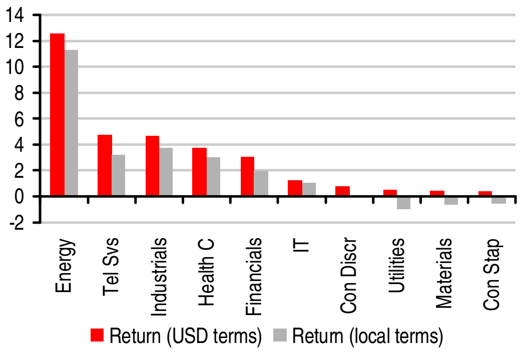
The impact of the earthquake should be temporary given the fact that only around 4% of GDP comes from the affected parts of the country. But we remain concerned about the longer-term issues of a shrinking population, the low return on equity and the BoJ's resistance to adopting any meaningful QE. Another negative is the possibility of further yen strength as funds get repatriated for the reconstruction effort.

Given all of the above, we would expect the market to be trading on a significant discount to both the Asia Pacific and global regions. But this is not the case with the market being the most expensive of the major developed markets (2011 PE of 14.2x).

Sector allocations

In this section we give an overview of our global sector allocations; they should be read alongside the sector scorecard (table 2 at the beginning of this section) which is the framework behind these calls.

15. MSCI AC world sector performance: Q1 2011

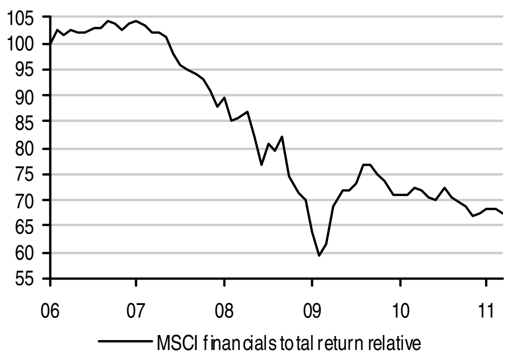


Source: Thomson Reuters Datastream, MSCI, HSBC

Financials (raise to overweight from neutral)

Financials performed in line with the global index in Q1. Not too bad a result for sector that has been a trend underperformer since the early stages of the financial crisis back in early 2007.

16. Financials has been a trend underperformer since 2007



Source: Thomson Reuters Datastream, MSCI, HSBC

At the start of the year the sector was deeply unloved and investors were running with big underweight positions, but in January we saw a very rapid reduction in the underweight as the sector began to outperform. We now believe the time is right to turn even more positive and we raise the sector to overweight from neutral.

There are a number of reasons why we are making this change, the key ones being: greater macro visibility, more visibility on regulation and capital requirements, an end in sight to the tightening cycle in certain large-cap EM countries such as China and Brazil, our strategic switch away from the more cyclically exposed sectors and a lack of exposure to commodity price inflation.

Note that there will be regional disparities relating to this call. For example, we are more positive on Asia ex-Japan and US financials than their European counterparts. In Asia specifically, we believe that financials are an excellent play on a recovery in domestic growth, especially when inflation risks start to decline and Asian countries are gradually able to adopt pro-domestic growth policies.

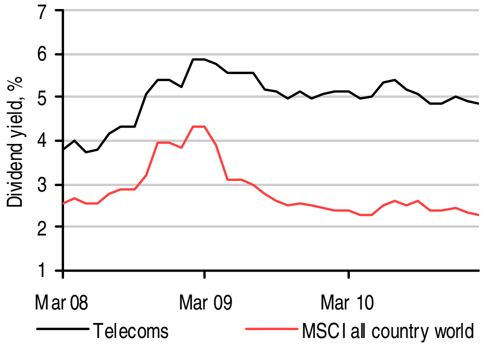
Within Europe we also see divergences emerging as a result of the severity of new regulations and capital adequacy requirements being proposed or introduced. For example, the outlook for French banks looks more positive than it does for the ones in UK.

In aggregate, the sector scores consistently well across all our scorecard categories with the exception of long-term story (refer to Table 2).

Telecoms (stay overweight)

We maintain our overweight position on telecoms. The sector was the second best performer in Q1 and we see it as an attractive shock absorber that is less exposed to any near term cyclical weakness and any further commodity price inflation.

17. Telecoms offer a significant yield premium



Source: Thomson Reuters Datastream, MSCI, HSBC

In an environment where the wider market may find it difficult to make progress over the next quarter or so, the attractive yield of 4.9% should become a sought-after attribute for a sector that is one of the most unloved in the market.

Aside from the yield attractions, cash flow visibility is positive and, more significantly, our sector analysts are seeing tentative evidence that the sector is finally getting its act together in terms of pricing. We are seeing the early stages of a shift to tiered plans as the scarcity of capacity on mobile networks becomes more apparent with the success of the smartphone.

This gives a potential “growth carrot” to a sector that is being priced as a utility and if it can monetise this scarcity then it should experience a re-rating.

Finally, there is plenty of value to be unlocked in this sector as highlighted by the reaction to the recent sale of DT’s US business.

Information technology (stay overweight)

Information technology was the only one of our four overweight sectors that underperformed in Q1, albeit only marginally.

We are sticking with it though because it is attractively valued, relatively unloved, not exposed to commodity price inflation and has, in our view, a good long-term story.

With global tech fundamentals being mixed we recommend a selective approach. While expectations for smartphones and tablets remain robust, tablet cannibalisation, Intel product roadmap struggles, and insufficient price elasticity has impacted both supply and demand for PCs and LED TVs.

We are therefore focusing our attention on niches with the sector. Our tech analysts believe that the adoption of tablets and smartphones is still in their infancy and that the sell-through of Apple products in particular will continue to be strong. This is changing how profits are redistributed along the tech food chain, towards Apple and, to a lesser extent, its Asian component makers, and away from the traditional Microsoft-Intel (Wintel) axis. Within semiconductors this also means a shift to apps processors, away from Intel’s traditional PC microprocessors.

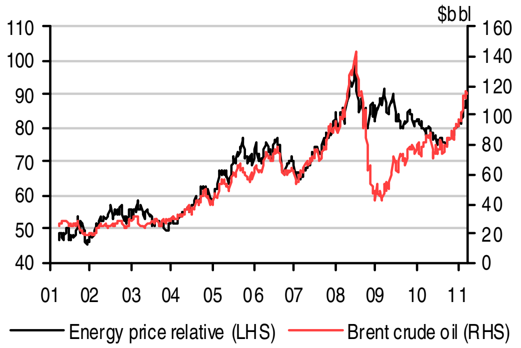
Within display, we are positive on touch screen adoption in mobile devices. We also look for exposure to LED TV backlighting and the adoption of AMOLED for use in smartphones and tablets (and eventually TVs). For the internet companies, growth is high, but so are valuations. Capex by mobile operators, suffering under a capacity crunch as data usage rises and the roll-out of 4G technology (especially China’s own TD-LTE standard), should translate into strong order flow for telecom equipment makers.

Energy (cut to neutral)

Energy was the standout performer in Q1, registering a 9% outperformance versus the world index (refer to chart 18). This, combined with a great deal of uncertainty regarding the future direction of the oil price, prompts us to bring this sector back down to neutral from overweight.

In chart 18, we can see the strong relationship between the relative performance of the global energy sector (to the global index) and the oil price. As you would expect it has been a very good one, with the exception of the period between late 2008 and early 2010, which was no great surprise given that it coincided with a financial crisis and a global recession.

18. Energy sector relative versus the oil price



Source: Thomson Reuters Datastream, MSCI, HSBC

However, as we can see from the chart, the strong positive correlation has now returned, so if this holds the sector call becomes, once again, a call on the direction of the oil price. And this is where it gets particularly difficult to call.

We see the risks as being evenly balanced in both directions. A swift resolution to the tensions in North Africa and the Middle East could lead to a downward move back below USD100 per barrel, but deterioration could trigger a spike back towards the USD150 mark.

Given this geopolitical related uncertainty, we feel a neutral (from overweight) is now the appropriate position on the global energy sector.

Industrials (cut to neutral)

The industrials sector was the third best performing sector in Q1 behind energy and telecommunication services.

We have been running with an overweight recommendation because we felt that there was far more visibility here than in the consumer facing sectors.

Not a lot has changed in terms of the demand outlook and this point was reiterated by the companies present at a recent Nordic industrials conference that we hosted. They were also upbeat on pricing but did sound notes of caution on margins (as a result of mix), FX and market expectations.

It is clearly a loved sector and, as a result, expectations and valuations are relatively high (as reflected in our sector scorecard). There may well be another leg to go in the upgrade cycle but, with the sector by no means immune to rising input cost inflation and the possibility of some softer economic numbers in the months ahead, we feel the time is right to cut it back to a neutral.

Materials (stay neutral)

We have been neutral on materials and see no reason to change, given our current strategy of scaling back our cyclical exposure.

The sector lagged in Q1 and was the second worst performer of the 10 MSCI global sectors. On our scorecard it scores badly on valuation, dividend yield and it is loved (a negative for us).

In the mining sector, investors remain particularly concerned about what companies are going to do with the huge amounts of cash they are generating. They would like to see more of it returned but buyback announcements from the key players disappointed in the first quarter. The worry is that it will be squandered on empire building acquisitions or higher capex which will lead to an oversupply.

According to our sector team, mining capex is likely to be up 45% this year and there is the potential for 2012 to be a year of surplus. With margins at record levels it is difficult to get too excited at this point in time.

The reason we are no worse than neutral is that demand continues to hold up well and valuations still look OK.

Consumer (stay underweight)

We continue to avoid the consumer facing sectors within the market at the global level.

In Q1, consumer discretionary and consumer staples both underperformed the global index and consumer staples was actually the worst performer of the 10 global sectors.

However, our caution is concentrated in developed markets and for Asia we are more mixed as a result of greater visibility on domestic demand and peaking inflation (but also higher valuations for consumer stocks).

With austerity starting to bite in Europe, elevated fuel prices showing signs of impacting consumer confidence in the US and input cost pressure remaining intense, we feel that the newsflow for this sector is going to get worse before it gets better.

Our preferred industry group within the consumer sectors continues to be luxury goods, where the feedback from a recent analyst trip to HK and China showed no let up in demand.

Heath care (cut to underweight)

Health care put in a resilient performance in Q1, registering a modest outperformance against the global index.

However, rather than marking the start of a period of sustained outperformance we feel that this provides another opportunity to sell and, in response, we cut the sector back to underweight.

Focusing on our scorecard, we see that the sector scores well on valuation and, alongside financials and telecoms, it is amongst the most unloved sectors by the market at present. However, with continued uncertainty regarding pipelines, patents, generic competition and the impact of fiscal austerity in the western world, we see the outlook as being underwhelming.

Within Asia we are more positive. Here, rising income, aging populations coupled with pension and insurance reform, could lead to continued strong demand growth. Asian companies could also become technology leaders in parts of the healthcare industry over time.

Utilities (stay underweight)

The trend underperformance of utilities continued in Q1, with the sector registering the third worst performance out of the 10 global sectors.

The recent nuclear crisis in Japan has placed a dark cloud over the outlook for the nuclear industry in various parts of the world, particularly those in areas more vulnerable to natural disasters.

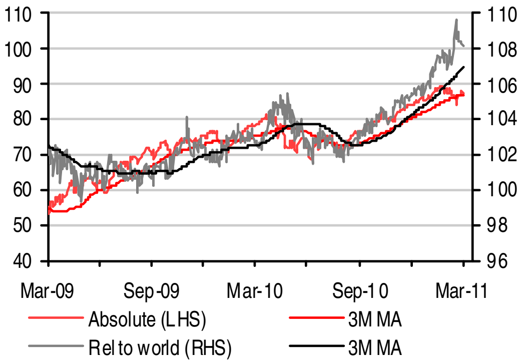
On our scorecard, the sector continues to look expensive relative to wider market although the yield, alongside telecoms, is the most attractive in the global universe. However, this sector continues to have the potential to be hit by negative growth surprises. The regulatory environment remains difficult in Europe and the sector remains at risk from cash strapped governments looking for additional revenues.

As with health care, we would like to see more visibility on these outstanding issues before we would consider turning more positive.

Data pack

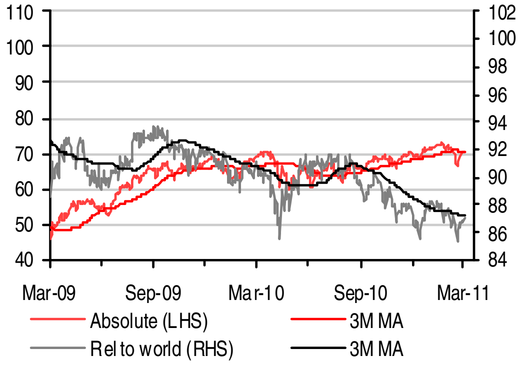
Regional performance

North America



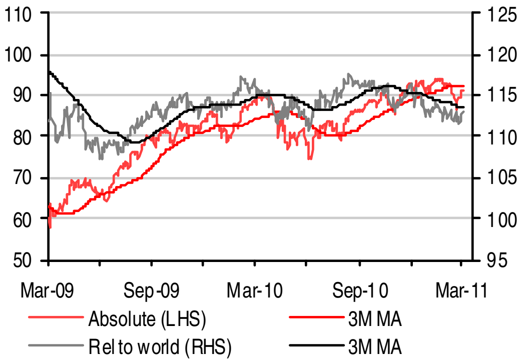
Source: Thomson Reuters Datastream, HSBC

Europe ex UK



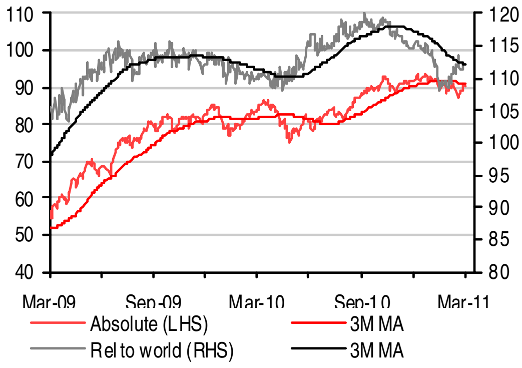
Source: Thomson Reuters Datastream, HSBC

UK



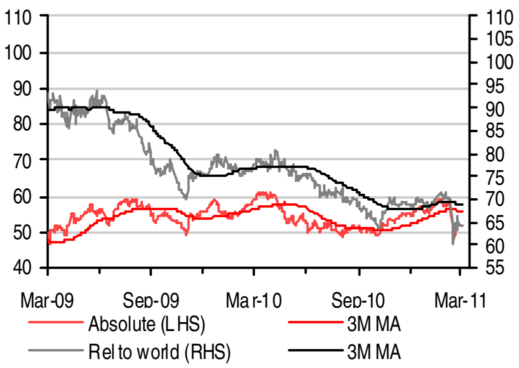
Source: Thomson Reuters Datastream, HSBC

Asia Pac ex Japan



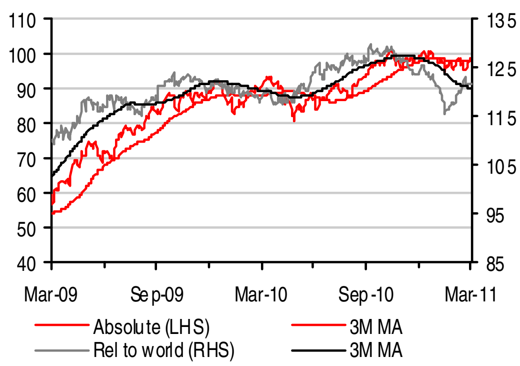
Source: Thomson Reuters Datastream, HSBC

Japan



Source: Thomson Reuters Datastream, HSBC

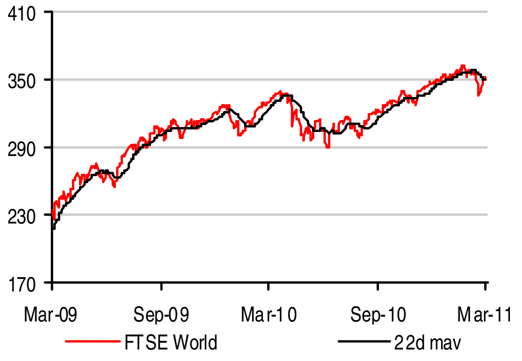
GEMs



Source: Thomson Reuters Datastream, HSBC

Major indices performance

MSCI All Country World



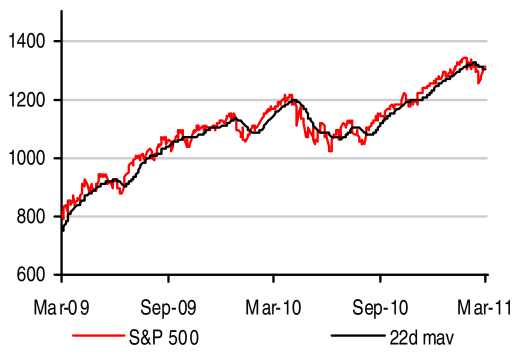
Source: Thomson Reuters Datastream, HSBC

MSCI All Country World

	Date	Level	% off	___% change___	
Current	28-Mar-11	351.6		**1D**	-0.2
Record high	12-Oct-07	453.7	-22.5	**1W**	1.5
52W high	18-Feb-11	363.2	-3.2	**3M**	1.4
52W low	05-Jul-10	291.2	20.7	**6M**	8.8
Y-t-d high	18-Feb-11	363.2	-3.2	**12M**	6.3
Y-t-d low	05-Jul-10	291.2	20.7	**Q-t-d**	1.6
5Y high	12-Oct-07	453.7	-22.5	**Y-t-d**	1.6
5Y low	09-Mar-09	200.3	75.5	**2010**	8.3

Source: Thomson Reuters Datastream, HSBC

S&P 500



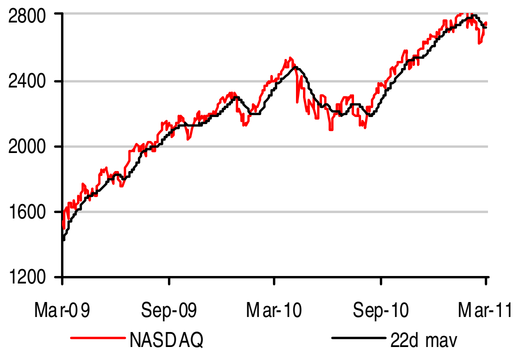
Source: Thomson Reuters Datastream, HSBC

S&P 500

	Date	Level	% off	___% change___	
Current	28-Mar-11	1310.2		**1D**	-0.3
Record high	09-Oct-07	1565.2	-16.3	**1W**	0.9
52W high	18-Feb-11	1343.0	-2.4	**3M**	4.1
52W low	02-Jul-10	1022.6	28.1	**6M**	14.2
Y-t-d high	18-Feb-11	1343.0	-2.4	**12M**	12.3
Y-t-d low	02-Jul-10	1022.6	28.1	**Q-t-d**	4.2
5Y high	09-Oct-07	1565.2	-16.3	**Y-t-d**	4.2
5Y low	09-Mar-09	676.5	93.7	**2010**	12.8

Source: Thomson Reuters Datastream, HSBC

NASDAQ



Source: Thomson Reuters Datastream, HSBC

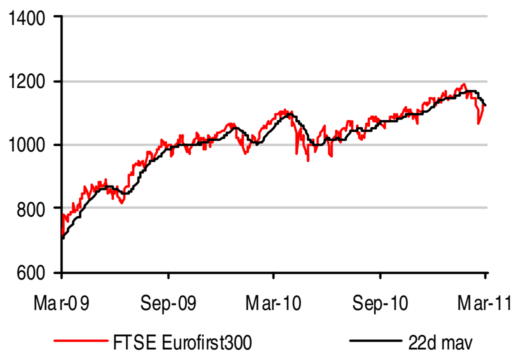
NASDAQ

	Date	Level	% off	___% change___	
Current	28-Mar-11	2730.7		**1D**	-0.5
Record high	10-Mar-00	5048.6	-45.9	**1W**	1.4
52W high	18-Feb-11	2834.0	-3.6	**3M**	2.6
52W low	02-Jul-10	2091.8	30.5	**6M**	14.8
Y-t-d high	18-Feb-11	2834.0	-3.6	**12M**	14.0
Y-t-d low	02-Jul-10	2091.8	30.5	**Q-t-d**	2.9
5Y high	31-Oct-07	2859.1	-4.5	**Y-t-d**	2.9
5Y low	09-Mar-09	1268.6	115.2	**2010**	16.9

Source: Thomson Reuters Datastream, HSBC

Major indices performance (cont'd)

Eurofirst



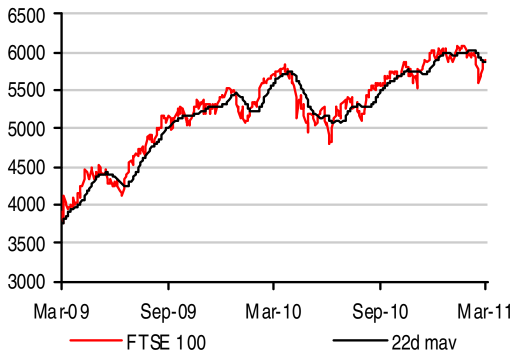
Source: Thomson Reuters Datastream, HSBC

Eurofirst

	Date	Level	% off	___% change___	
Current	28-Mar-11	1125.5		**1D**	0.1
Record high	04-Sep-00	1705.0	-34.0	**1W**	1.6
52W high	17-Feb-11	1187.2	-5.2	**3M**	-1.3
52W low	25-May-10	949.9	18.5	**6M**	5.1
Y-t-d high	17-Feb-11	1187.2	-5.2	**12M**	4.5
Y-t-d low	25-May-10	949.9	18.5	**Q-t-d**	0.3
5Y high	16-Jul-07	1630.3	-31.0	**Y-t-d**	0.3
5Y low	09-Mar-09	657.3	71.2	**2010**	7.3

Source: Thomson Reuters Datastream, HSBC

FTSE 100



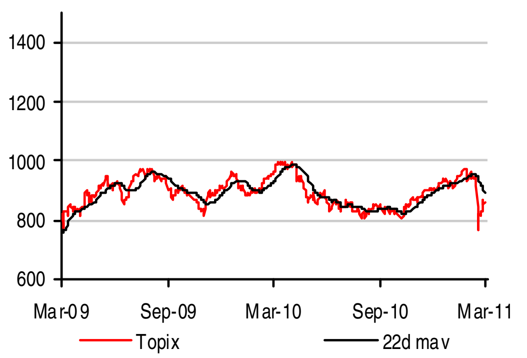
Source: Thomson Reuters Datastream, HSBC

FTSE 100

	Date	Level	% off	___% change___	
Current	28-Mar-11	5904.5		**1D**	0.1
Record high	30-Dec-99	6930.2	-14.8	**1W**	2.1
52W high	08-Feb-11	6091.3	-3.1	**3M**	-1.7
52W low	01-Jul-10	4805.8	22.9	**6M**	5.8
Y-t-d high	08-Feb-11	6091.3	-3.1	**12M**	3.5
Y-t-d low	01-Jul-10	4805.8	22.9	**Q-t-d**	0.1
5Y high	15-Jun-07	6732.4	-12.3	**Y-t-d**	0.1
5Y low	03-Mar-09	3512.1	68.1	**2010**	9.0

Source: Thomson Reuters Datastream, HSBC

TOPIX



Source: Thomson Reuters Datastream, HSBC

TOPIX

	Date	Level	% off	___% change___	
Current	28-Mar-11	857.9		**1D**	0.1
Record high	18-Dec-89	2884.8	-70.3	**1W**	3.3
52W high	15-Apr-10	998.9	-14.1	**3M**	-5.0
52W low	15-Mar-11	766.7	11.9	**6M**	1.8
Y-t-d high	15-Apr-10	998.9	-14.1	**12M**	-11.3
Y-t-d low	15-Mar-11	766.7	11.9	**Q-t-d**	-4.6
5Y high	26-Feb-07	1817.0	-52.8	**Y-t-d**	-4.6
5Y low	12-Mar-09	700.9	22.4	**2010**	-1.0

Source: Thomson Reuters Datastream, HSBC

Regional performance

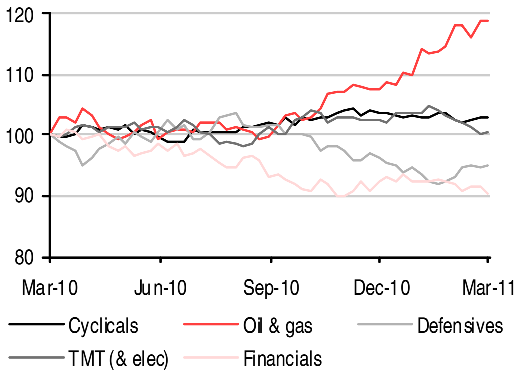
Total return (% in USD terms) MSCI indices, priced at 28/03/2011

	Weight (%)	-1W	-1M	-1Q	-1Y	m-t-d	q-t-d	y-t-d
AC World	**100.0**	**1.3**	**-1.4**	**3.8**	**14.0**	**-1.4**	**3.1**	**3.1**
Developed World	**86.8**	**1.1**	**-2.1**	**4.1**	**13.6**	**-2.1**	**3.7**	**3.7**
Emerging World	**13.2**	**2.6**	**2.9**	**1.5**	**17.5**	**2.9**	**-0.7**	**-0.7**
North America	**47.6**	**0.8**	**-1.2**	**4.8**	**15.7**	**-1.2**	**4.7**	**4.7**
Europe	**25.2**	**1.0**	**-1.3**	**6.7**	**13.8**	**-1.3**	**6.0**	**6.0**
Eurozone	**11.9**	**1.3**	**-0.6**	**10.4**	**11.3**	**-0.6**	**9.1**	**9.1**
Europe ex UK	**16.9**	**1.2**	**-0.7**	**8.3**	**13.3**	**-0.7**	**7.2**	**7.2**
Pacific ex Japan	**5.0**	**3.5**	**-0.3**	**0.9**	**14.3**	**-0.3**	**0.2**	**0.2**
Australia	3.3	4.2	-0.7	1.9	12.9	-0.7	1.6	1.6
Austria	0.1	2.0	0.8	7.6	20.9	0.8	5.6	5.6
Belgium	0.4	0.4	0.7	6.7	7.0	0.7	5.4	5.4
Brazil	2.1	1.2	-0.5	1.8	9.6	-0.5	-1.8	-1.8
Canada	4.7	-0.8	-1.8	7.1	23.5	-1.8	5.9	5.9
Chile	0.2	3.7	3.2	-6.4	35.1	3.2	-8.6	-8.6
China	2.4	2.0	2.5	2.6	8.5	2.5	0.1	0.1
Colombia	0.1	-0.4	4.5	4.6	32.5	4.5	-0.1	-0.1
Czech Republic	0.0	2.3	7.2	20.0	13.0	7.2	15.3	15.3
Denmark	0.4	0.2	-0.2	8.2	28.1	-0.2	6.8	6.8
Egypt	0.0	-5.8	-6.5	-24.9	-24.9	-6.5	-26.4	-26.4
Finland	0.4	2.5	3.5	3.0	1.0	3.5	1.3	1.3
France	3.9	1.3	-1.0	10.4	11.0	-1.0	9.6	9.6
Germany	3.3	1.2	-2.4	6.8	20.2	-2.4	5.4	5.4
Greece	0.1	-1.7	4.3	23.3	-25.8	4.3	21.3	21.3
Hong Kong	1.1	1.5	-0.9	-1.3	16.6	-0.9	-2.5	-2.5
Hungary	0.1	2.4	1.4	19.5	-6.8	1.4	17.8	17.8
India	1.0	6.1	7.6	-5.1	6.0	7.6	-8.1	-8.1
Indonesia	0.3	3.4	6.9	3.0	22.6	6.9	2.1	2.1
Ireland	0.1	4.3	2.7	13.1	-8.4	2.7	12.1	12.1
Israel	0.3	3.4	2.2	-1.1	-7.0	2.2	-3.0	-3.0
Italy	1.1	1.6	-0.2	15.0	5.9	-0.2	14.1	14.1
Japan	8.6	2.1	-9.8	-5.0	1.9	-9.8	-5.6	-5.6
Korea	1.8	3.7	7.3	5.5	26.7	7.3	3.3	3.3
Malaysia	0.4	1.2	3.2	2.5	30.9	3.2	2.2	2.2
Mexico	0.6	4.0	0.4	-0.5	19.2	0.4	-1.7	-1.7
Morocco	0.0	-1.0	-1.4	7.7	18.1	-1.4	6.6	6.6
Netherlands	1.0	1.7	1.2	11.5	14.9	1.2	9.7	9.7
New Zealand	0.0	5.2	1.6	3.7	17.3	1.6	1.8	1.8
Norway	0.4	0.4	0.2	7.7	30.3	0.2	5.8	5.8
Peru	0.1	-2.2	-4.9	-14.1	31.8	-4.9	-14.9	-14.9
Philippines	0.1	2.8	6.1	-4.4	20.3	6.1	-6.2	-6.2
Poland	0.2	1.8	5.4	10.7	22.1	5.4	7.6	7.6
Portugal	0.1	-2.4	0.5	8.6	10.2	0.5	9.0	9.0
Russia	1.0	3.0	5.1	16.4	34.6	5.1	16.2	16.2
Singapore F	0.6	3.1	2.8	-1.0	20.2	2.8	-2.5	-2.5
South Africa	1.0	4.5	0.5	-4.1	22.7	0.5	-6.1	-6.1
Spain	1.4	0.9	0.6	17.4	6.4	0.6	15.5	15.5
Sweden	1.2	2.0	0.9	6.0	30.7	0.9	4.1	4.1
Switzerland	3.1	1.1	-1.6	1.9	12.0	-1.6	1.8	1.8
Taiwan	1.5	1.3	-0.1	-3.6	21.0	-0.1	-6.0	-6.0
Thailand	0.2	1.1	6.1	2.9	43.5	6.1	2.3	2.3
Turkey	0.2	1.7	7.3	-5.3	11.4	7.3	-5.6	-5.6
UK	8.3	0.4	-2.7	3.5	14.9	-2.7	3.5	3.5
US	42.9	-1.3	-1.8	5.6	15.8	-1.7	4.0	4.0

Source: Thomson Reuters Datastream, HSBC

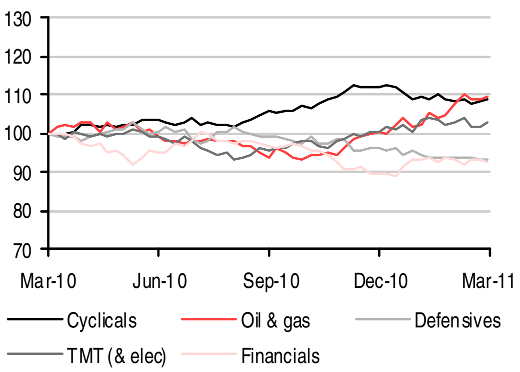
Supersectors and selected cyclicals: price relatives

US



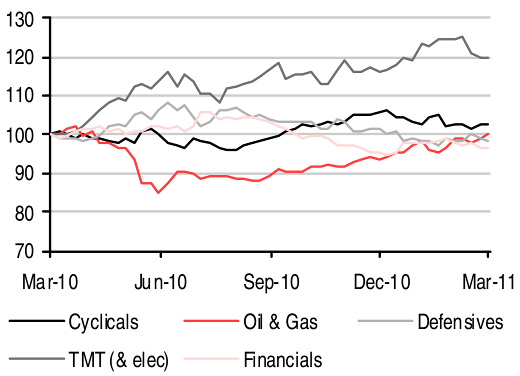
Source: Thomson Reuters Datastream, HSBC

Europe ex UK



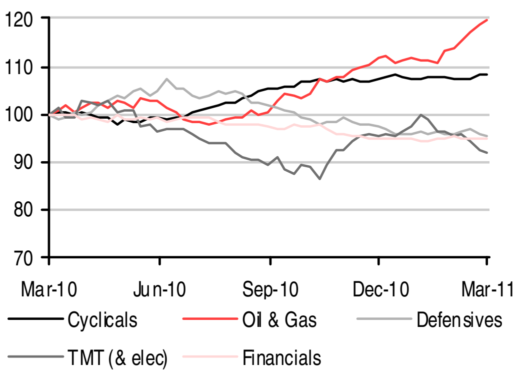
Source: Thomson Reuters Datastream, HSBC

UK



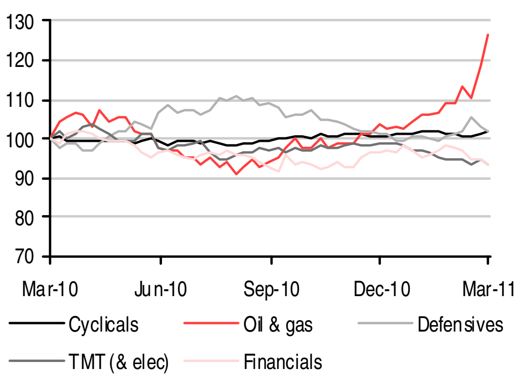
Source: Thomson Reuters Datastream, HSBC

Asia Pacific ex Japan



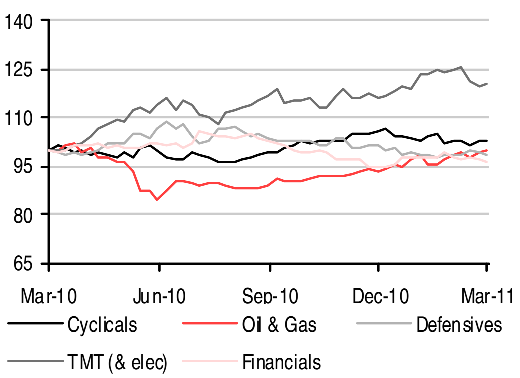
Source: Thomson Reuters Datastream, HSBC

Japan



Source: Thomson Reuters Datastream, HSBC

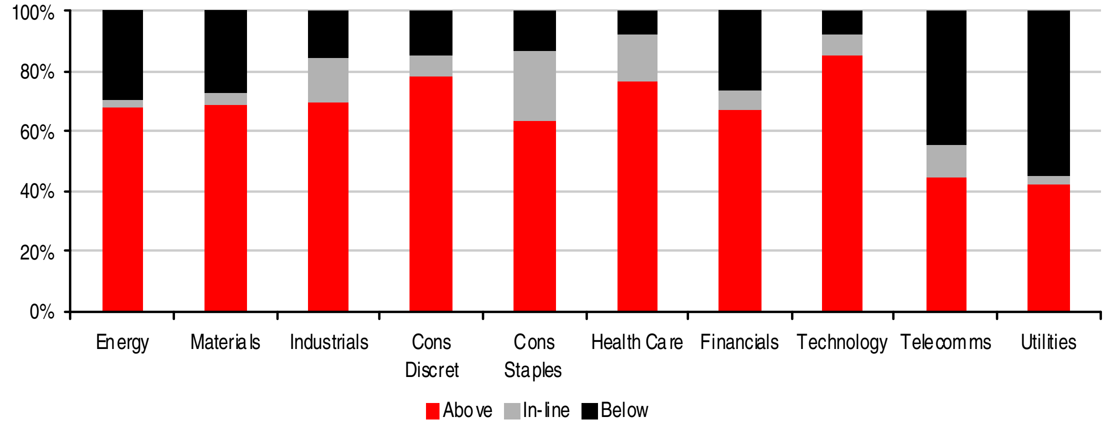
GEMs



Source: Thomson Reuters Datastream, HSBC

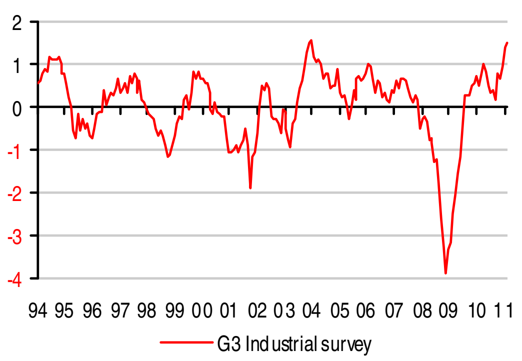
Growth indicators

US results season performance by sector – EPS



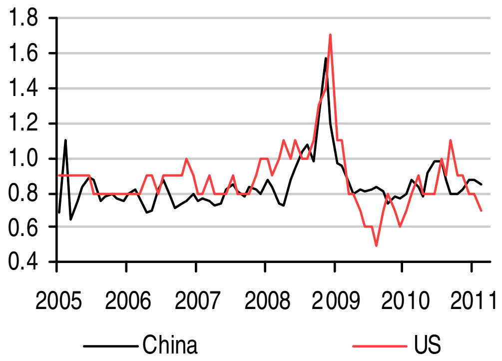
Source: Thomson Reuters Datastream, HSBC

G3 Industrial Survey



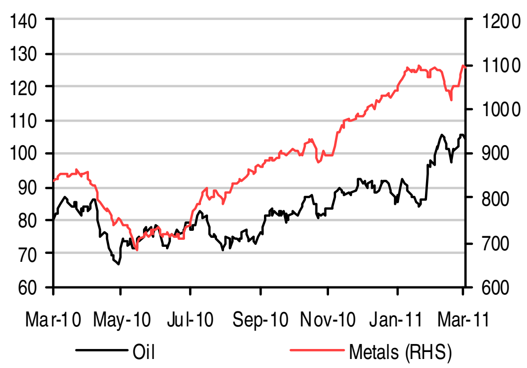
Source: Thomson Reuters Datastream, HSBC

Purchasing Managers Index – Inventories / New Orders



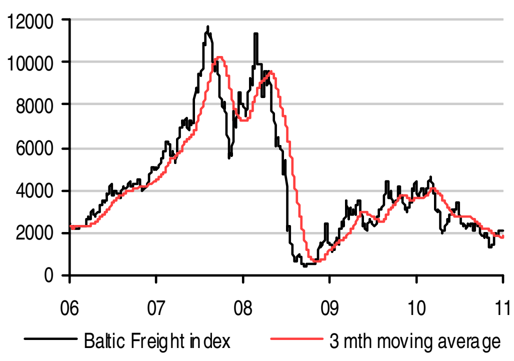
Source: Thomson Reuters Datastream, HSBC

Metal (index) and oil prices (USDpb)



Source: Thomson Reuters Datastream, HSBC

Baltic Exchange Dry Index



Source: Thomson Reuters Datastream, HSBC

US

Earnings consensus: PE, dividend and dividend yield

		Weight	EPS growth (%)			PE (x)			DPS growth (%)			Dividend yield (%)		
		(%)	2010e	2011e	2012e	2010e	2011e	2012e	2010e	2011e	2012e	2010e	2011e	2012e
O	**Energy**	**13**	**49**	**25**	**14**	**16.6**	**13.2**	**11.6**	**2**	**8**	**6**	**1.5**	**1.6**	**1.7**
C	**Materials**	**4**	**72**	**33**	**14**	**18.4**	**13.9**	**12.1**	**11**	**8**	**5**	**1.5**	**1.6**	**1.7**
C	**Industrials**	**11**	**38**	**17**	**18**	**18.0**	**15.4**	**13.0**	**-1**	**10**	**10**	**1.8**	**1.9**	**2.1**
C	Capital Goods	8	22	18	18	18.1	15.4	13.0	-5	10	11	1.8	2.0	2.2
C	Commercial Services & Suppliers	1	13	11	15	19.0	17.1	14.9	28	7	7	2.1	2.3	2.4
C	Transportation	2	229	15	17	17.1	14.8	12.6	6	11	8	1.5	1.6	1.8
C	**Consumer Discretionary**	**11**	**41**	**17**	**17**	**17.7**	**15.2**	**13.0**	**-24**	**3**	**9**	**1.2**	**1.3**	**1.4**
C	Automobiles & Components	1	635	13	18	10.8	9.5	8.1	5	28	8	0.3	0.4	0.4
C	Consumer Durables & Apparel	1	90	23	16	19.5	15.9	13.6	16	7	14	1.7	1.8	2.0
C	Consumer Services	2	28	19	16	22.0	18.4	15.9	63	-4	15	1.8	1.7	2.0
C	Media	3	36	22	19	18.5	15.2	12.8	-69	19	3	1.1	1.3	1.3
C	Retailing	4	27	12	15	18.7	16.7	14.4	25	-6	6	1.2	1.1	1.2
D	**Consumer staples**	**10**	**9**	**8**	**10**	**15.4**	**14.3**	**13.0**	**10**	**10**	**9**	**2.8**	**3.0**	**3.3**
D	Food & Staples Retailing	3	9	9	11	14.3	13.1	11.8	12	12	9	1.9	2.1	2.3
D	Food Beverage &Tobacco	6	12	10	9	16.0	14.5	13.3	9	9	8	3.2	3.5	3.7
D	Household & Personal Products	2	2	0	10	15.6	15.6	14.1	10	10	9	2.8	3.0	3.3
D	**Health Care**	**11**	**11**	**5**	**8**	**12.6**	**12.0**	**11.1**	**13**	**1**	**6**	**2.1**	**2.1**	**2.3**
D	Health Care Equipment & Servs	4	13	4	13	14.4	13.8	12.3	34	20	9	0.8	0.9	1.0
D	Pharmaceuticals & Biotechnology	7	10	5	5	11.7	11.1	10.6	10	-2	6	2.9	2.8	3.0
F	**Financials**	**16**	**n/m**	**51**	**21**	**19.2**	**12.7**	**10.5**	**41**	**-16**	**36**	**1.9**	**1.6**	**2.2**
F	Banks	3	250	35	31	17.5	13.0	9.9	-41	70	55	1.0	1.7	2.6
F	Diversified Financials	7	636	23	21	13.7	11.1	9.2	14	42	75	0.8	1.1	2.0
F	Insurance	4	n/m	254	16	42.7	12.1	10.4	8	9	7	1.3	1.4	1.5
F	Real Estate	2	69	19	12	42.1	35.2	31.4	134	-57	3	8.8	3.8	3.9
T	**Information Technology**	**19**	**50**	**14**	**12**	**15.3**	**13.5**	**12.1**	**13**	**6**	**3**	**0.8**	**0.9**	**0.9**
T	Software & Services	10	21	15	12	16.3	14.2	12.7	16	4	3	0.9	1.0	1.0
T	Technology Hardware & Equip	7	61	17	12	15.2	13.0	11.6	-0	8	2	0.3	0.3	0.4
T	Semiconductors & Semi Equip	3	247	6	10	12.9	12.2	11.1	14	9	2	1.8	1.9	2.0
D	**Telecommunications**	**3**	**-2**	**10**	**15**	**19.5**	**17.8**	**15.4**	**-5**	**8**	**2**	**4.5**	**4.8**	**4.9**
D	**Utilities**	**3**	**4**	**-2**	**-0**	**12.7**	**12.9**	**13.0**	**-1**	**8**	**3**	**4.1**	**4.4**	**4.5**
	MSCI US	**100**	**59**	**19**	**14**	**16.2**	**13.7**	**12.0**	**7**	**3**	**11**	**1.8**	**1.8**	**2.0**
	MSCI US ex-Financials	**84**	**30**	**14**	**12**	**15.8**	**13.9**	**12.3**	**2**	**7**	**6**	**1.8**	**1.9**	**2.0**
	MSCI US ex-Energy	**87**	**61**	**18**	**14**	**16.2**	**13.7**	**12.1**	**7**	**2**	**11**	**1.8**	**1.9**	**2.1**
C	Cyclicals	26	43	19	17	17.9	15.0	12.9	-9	7	9	1.5	1.6	1.7
O	Oil & gas	13	49	25	14	16.6	13.2	11.6	2	8	6	1.5	1.6	1.7
D	Defensives	27	8	6	8	14.1	13.4	12.4	6	7	6	2.8	3.0	3.2
T	Technology	19	50	14	12	15.3	13.5	12.1	13	6	3	0.8	0.9	0.9
F	Financials	16	n/m	51	21	19.2	12.7	10.5	41	-16	36	1.9	1.6	2.2

Source: Thomson Reuters Datastream, I/B/E/S, MSCI, HSBC as at 28 March 2011

Pan Europe

Consensus earnings, PE, dividends and dividend yields

		Weight	EPS growth (%)			PE (x)			DPS growth (%)			Dividend yield (%)		
		(%)	2010e	2011e	2012e	2010e	2011e	2012e	2010e	2011e	2012e	2010e	2011e	2012e
O	**Energy**	**11**	**35.6**	**20.8**	**11.2**	**11.5**	**9.6**	**8.6**	**-13.6**	**12.9**	**4.9**	**3.6**	**4.0**	**4.2**
C	**Materials**	**10**	**102.1**	**37.6**	**13.3**	**14.3**	**10.4**	**9.2**	**15.5**	**37.0**	**11.5**	**1.8**	**2.5**	**2.7**
C	**Industrials**	**11**	**51.5**	**14.0**	**16.5**	**15.6**	**13.7**	**11.8**	**23.5**	**23.4**	**12.4**	**2.5**	**3.1**	**3.5**
C	Capital Goods	8	35.7	20.6	15.9	16.4	13.6	11.8	29.3	20.8	13.1	2.6	3.1	3.5
C	Commercial Services & Suppliers	1	17.6	13.0	15.4	17.9	15.8	13.7	40.0	3.3	12.2	2.6	2.6	3.0
C	Transportation	2	231.0	-9.4	19.9	11.9	13.1	11.0	-9.8	55.7	9.4	2.0	3.2	3.5
C	**Consumer Discretionary**	**9**	**217.8**	**11.1**	**15.8**	**13.8**	**12.4**	**10.7**	**30.1**	**22.0**	**15.1**	**2.7**	**3.3**	**3.8**
C	Automobiles & Components	2	n/m	15.8	21.4	10.2	8.8	7.3	331.7	34.6	25.5	2.2	3.0	3.8
C	Consumer Durables & Apparel	2	65.9	5.4	14.6	17.3	16.4	14.3	41.6	15.1	15.5	1.8	2.1	2.5
C	Consumer Services	1	-9.4	21.5	13.7	16.8	14.0	12.3	-24.1	48.9	12.7	2.4	3.5	4.0
C	Media	2	14.5	9.6	9.9	13.9	12.6	11.5	-0.8	20.8	9.0	3.7	4.4	4.8
C	Retailing	2	19.8	4.3	13.2	16.5	15.9	14.0	21.6	6.9	12.4	3.6	3.9	4.4
D	**Consumer staples**	**12**	**13.0**	**9.3**	**11.2**	**15.4**	**14.1**	**12.6**	**13.1**	**9.7**	**10.7**	**3.0**	**3.3**	**3.6**
D	Food & Staples Retailing	2	12.6	14.5	13.3	13.7	12.0	10.6	11.4	9.5	11.5	3.4	3.7	4.1
D	Food Beverage &Tobacco	8	12.4	8.3	10.9	15.4	14.2	12.8	14.2	9.2	10.7	3.0	3.3	3.7
D	Household & Personal Products	1	18.2	6.9	8.7	18.0	16.8	15.5	8.2	14.6	9.2	2.3	2.6	2.9
D	**Health Care**	**8**	**11.9**	**1.0**	**4.7**	**10.8**	**10.7**	**10.2**	**9.3**	**7.2**	**6.9**	**3.7**	**4.0**	**4.3**
D	Health Care Equipment & Servs	1	11.9	11.1	12.5	18.6	16.8	14.9	4.8	22.3	12.4	1.2	1.5	1.7
D	Pharmaceuticals & Biotechnology	7	11.9	0.1	4.0	10.1	10.1	9.7	9.5	6.4	6.6	4.2	4.4	4.7
F	**Financials**	**22**	**77.7**	**22.7**	**19.5**	**11.7**	**9.6**	**8.0**	**-4.4**	**38.9**	**19.9**	**2.7**	**3.8**	**4.6**
F	Banks	12	300.4	31.9	25.4	12.5	9.5	7.6	9.4	31.6	22.7	2.8	3.7	4.6
F	Diversified Financials	4	21.3	18.5	12.4	10.6	9.2	8.2	-47.1	123.9	39.4	1.1	2.5	3.4
F	Insurance	5	3.7	10.6	12.6	10.2	9.2	8.2	-10.3	43.1	9.2	3.5	5.0	5.5
F	Real Estate	1	8.3	-0.7	5.6	17.8	17.9	16.9	4.4	-3.8	4.3	4.8	4.6	4.8
T	**Information Technology**	**3**	**68.9**	**15.2**	**12.3**	**17.0**	**14.7**	**13.1**	**9.6**	**17.6**	**9.2**	**2.0**	**2.3**	**2.6**
T	Software & Services	1	18.8	12.2	14.3	17.7	15.8	13.8	-5.0	66.0	12.8	1.1	1.8	2.0
T	Technology Hardware & Equip	1	8.0	5.5	16.9	14.9	14.1	12.1	3.5	-0.4	6.5	3.7	3.7	3.9
T	Semiconductors & Semi Equip	1	n/m	42.7	1.2	19.6	13.7	13.6	151.9	10.8	10.2	1.3	1.4	1.5
D	**Telecommunications**	**7**	**1.7**	**3.6**	**4.8**	**11.0**	**10.5**	**10.0**	**4.6**	**16.5**	**6.1**	**5.7**	**6.7**	**7.1**
D	**Utilities**	**7**	**-4.8**	**-4.2**	**9.5**	**11.9**	**12.4**	**11.3**	**-2.2**	**9.0**	**4.8**	**4.8**	**5.2**	**5.5**
	MSCI Europe	**100**	**42.5**	**14.8**	**13.3**	**12.8**	**11.1**	**9.8**	**4.2**	**20.1**	**11.1**	**3.1**	**3.8**	**4.2**
	MSCI Europe ex-Financials	**78**	**34.3**	**12.4**	**11.2**	**13.1**	**11.7**	**10.5**	**6.4**	**15.7**	**8.7**	**3.3**	**3.8**	**4.1**
	MSCI Europe ex-Energy	**89**	**43.5**	**14.0**	**13.6**	**13.0**	**11.4**	**10.0**	**7.4**	**21.1**	**12.0**	**3.1**	**3.7**	**4.2**
C	Cyclicals	31	102.1	21.2	15.1	14.6	12.1	10.5	23.5	26.4	13.1	2.3	3.0	3.3
O	Oil & gas	11	35.6	20.8	11.2	11.5	9.6	8.6	-13.6	12.9	4.9	3.6	4.0	4.2
D	Defensives	34	5.8	2.7	7.6	12.3	12.0	11.1	5.8	10.8	7.1	4.1	4.5	4.9
T	Technology	3	68.9	15.2	12.3	17.0	14.7	13.1	9.6	17.6	9.2	2.0	2.3	2.6
F	Financials	22	77.7	22.7	19.5	11.7	9.6	8.0	-4.4	38.9	19.9	2.7	3.8	4.6

Source: Thomson Reuters Datastream, I/B/E/S, MSCI, HSBC as at 28 March 2011

Europe ex UK

Consensus earnings, PE, dividends and dividend yields

		Weight	EPS growth (%)			PE (x)			DPS growth (%)			Dividend yield (%)		
		(%)	2010e	2011e	2012e	2010e	2011e	2012e	2010e	2011e	2012e	2010e	2011e	2012e
O	**Energy**	8	23.3	23.4	11.7	11.8	9.7	8.7	3.9	7.3	3.9	4.2	4.5	4.7
C	**Materials**	8	131.1	21.6	19.8	15.7	13.0	10.8	7.3	17.5	14.0	2.3	2.8	3.2
C	**Industrials**	14	59.3	15.1	17.5	16.0	13.9	11.8	39.0	9.8	12.8	2.7	3.1	3.5
C	Capital Goods	11	38.3	22.8	16.8	17.0	13.9	11.9	39.5	11.6	13.5	2.7	3.1	3.5
C	Commercial Services & Suppliers	1	26.5	15.1	17.8	19.1	16.6	14.1	42.3	-1.2	12.1	2.9	2.8	3.2
C	Transportation	2	244.6	-9.7	20.5	12.0	13.3	11.0	33.8	5.1	9.5	2.7	3.1	3.4
C	**Consumer Discretionary**	11	363.6	11.6	16.5	13.7	12.2	10.5	50.7	12.3	15.5	2.9	3.3	3.8
C	Automobiles & Components	3	n/m	15.9	21.4	10.2	8.8	7.3	389.2	20.0	25.5	2.2	3.0	3.8
C	Consumer Durables & Apparel	3	66.1	4.9	14.6	17.1	16.3	14.2	36.2	14.8	15.5	1.9	2.1	2.5
C	Consumer Services	1	-34.0	47.6	14.2	22.3	15.3	13.4	-5.3	13.6	11.0	3.9	3.7	4.1
C	Media	2	10.8	9.0	8.9	13.0	11.9	10.9	12.0	7.6	7.8	4.7	5.1	5.5
C	Retailing	2	23.7	3.8	14.1	18.8	18.1	15.9	15.7	6.9	13.2	3.5	3.8	4.3
D	**Consumer staples**	11	13.1	9.6	11.9	16.2	14.8	13.2	14.9	9.0	11.6	2.7	2.9	3.3
D	Food & Staples Retailing	2	13.7	15.6	14.9	14.8	12.8	11.2	12.0	8.2	12.4	3.1	3.4	3.8
D	Food Beverage &Tobacco	8	12.0	8.4	11.3	16.0	14.7	13.2	14.9	9.3	11.5	2.7	3.0	3.3
D	Household & Personal Products	1	19.3	8.6	11.0	20.2	18.6	16.7	21.6	8.4	10.9	2.0	2.2	2.5
D	**Health Care**	9	13.2	5.1	5.9	11.8	11.2	10.6	11.1	7.2	7.7	3.4	3.7	4.0
D	Health Care Equipment & Servs	1	10.8	22.8	12.9	20.9	17.0	15.1	16.3	23.4	12.7	1.2	1.5	1.7
D	Pharmaceuticals & Biotechnology	7	13.4	3.2	5.0	10.8	10.5	10.0	10.8	6.2	7.3	3.9	4.1	4.4
F	**Financials**	22	34.1	19.6	17.8	10.8	9.1	7.8	11.4	11.5	18.9	3.4	4.0	4.8
F	Banks	11	61.6	26.0	22.9	11.0	8.9	7.2	18.9	13.2	19.0	3.6	4.3	5.1
F	Diversified Financials	5	21.5	17.7	12.1	10.4	9.1	8.1	-19.4	27.2	42.9	1.7	2.4	3.4
F	Insurance	5	17.7	12.4	13.4	10.1	9.1	8.0	19.0	8.3	9.5	4.5	5.0	5.5
F	Real Estate	1	-22.2	-2.4	6.1	16.4	16.8	15.8	-29.5	-6.3	4.7	5.2	4.9	5.1
T	**Information Technology**	4	70.5	15.2	12.6	16.3	14.2	12.6	16.2	4.1	9.1	2.2	2.5	2.7
T	Software & Services	2	19.6	12.7	14.6	17.7	15.7	13.7	25.9	14.0	13.2	1.4	1.8	2.1
T	Technology Hardware & Equip	1	8.1	5.0	18.0	14.9	14.2	12.0	3.9	-0.5	6.5	3.7	3.7	3.9
T	Semiconductors & Semi Equip	1	n/m	44.7	0.0	16.6	11.4	11.4	165.3	9.4	9.7	1.5	1.6	1.8
D	**Telecommunications**	6	-0.1	3.8	4.6	11.1	10.6	10.1	6.9	13.5	5.8	6.4	7.2	7.6
D	**Utilities**	8	-4.0	-4.9	9.8	11.9	12.5	11.4	2.0	-0.2	4.4	5.0	5.2	5.5
	MSCI Europe ex-UK	100	35.1	12.8	13.9	12.9	11.5	10.1	12.2	9.2	11.3	3.4	3.9	4.3
	MSCI Europe ex-UK ex-Financials	78	37.2	10.6	12.5	13.7	12.3	11.0	14.3	8.7	9.0	3.4	3.8	4.2
	MSCI Europe ex-UK ex-Energy	92	36.5	11.8	14.2	13.1	11.7	10.2	13.5	9.4	12.0	3.4	3.8	4.3
C	Cyclicals	33	131.8	15.4	17.7	15.1	13.1	11.1	35.1	12.1	14.0	2.7	3.1	3.5
O	Oil & gas	8	23.3	23.4	11.7	11.8	9.7	8.7	3.9	7.3	3.9	4.2	4.5	4.7
D	Defensives	34	5.4	3.3	8.1	12.8	12.3	11.4	7.9	7.3	7.0	4.1	4.5	4.8
T	Technology	4	70.5	15.2	12.6	16.3	14.2	12.6	16.2	4.1	9.1	2.2	2.5	2.7
F	Financials	22	34.1	19.6	17.8	10.8	9.1	7.8	11.4	11.5	18.9	3.4	4.0	4.8

Source: Thomson Reuters Datastream, I/B/E/S, MSCI, HSBC as at 28 March 2011

HSBC

UK

Earnings consensus: PE, dividend and dividend yields

		Weight (%)	EPS growth (%) 2010e	EPS growth (%) 2011e	EPS growth (%) 2012e	PE (x) 2010e	PE (x) 2011e	PE (x) 2012e	DPS growth (%) 2010e	DPS growth (%) 2011e	DPS growth (%) 2012e	Dividend yield (%) 2010e	Dividend yield (%) 2011e	Dividend yield (%) 2012e
O	**Energy**	**19**	**50**	**18**	**11**	**11.2**	**9.4**	**8.5**	**-35**	**22**	**6**	**2.8**	**3.5**	**3.7**
C	**Materials**	**16**	**73**	**54**	**8**	**12.9**	**8.4**	**7.7**	**123**	**13**	**7**	**1.8**	**2.0**	**2.1**
C	**Industrials**	**5**	**6**	**10**	**10**	**13.6**	**12.4**	**11.3**	**-5**	**31**	**10**	**2.3**	**3.0**	**3.3**
C	Capital Goods	3	5	10	9	12.6	11.5	10.6	-15	44	9	2.2	3.2	3.5
C	Commercial Services & Suppliers	2	10	11	13	16.5	14.9	13.2	17	11	12	2.1	2.4	2.7
C	Transportation	0	5	5	5	8.1	7.7	7.3	5	7	7	6.6	7.1	7.6
C	**Consumer Discretionary**	**5**	**15**	**10**	**13**	**14.5**	**13.2**	**11.7**	**15**	**13**	**13**	**2.9**	**3.3**	**3.8**
C	Automobiles & Components	0	n/m	n/m	n/m				n/m	n/m	n/m			
C	Consumer Durables & Apparel	0	30	24	17	25.1	20.2	17.2	30	25	18	1.6	2.0	2.3
C	Consumer Services	2	9	9	13	14.2	13.0	11.5	27	12	14	3.0	3.4	3.9
C	Media	3	21	13	13	16.2	14.4	12.7	8	17	13	2.6	3.1	3.5
C	Retailing	1	11	5	11	10.8	10.2	9.2	12	8	10	4.0	4.4	4.8
D	**Consumer staples**	**14**	**12**	**9**	**10**	**13.9**	**12.8**	**11.6**	**11**	**9**	**9**	**3.7**	**4.0**	**4.4**
D	Food & Staples Retailing	3	11	12	11	12.1	10.9	9.8	13	9	10	3.8	4.2	4.6
D	Food Beverage &Tobacco	10	12	8	10	14.5	13.3	12.1	11	9	10	3.7	4.0	4.4
D	Household & Personal Products	1	16	4	4	14.1	13.6	13.0	15	3	7	3.6	3.7	4.0
D	**Health Care**	**7**	**9**	**-6**	**2**	**8.7**	**9.3**	**9.2**	**8**	**5**	**5**	**4.9**	**5.1**	**5.4**
D	Health Care Equipment & Servs	0	12	4	9	15.1	14.5	13.3	15	7	9	1.4	1.5	1.7
D	Pharmaceuticals & Biotechnology	7	8	-7	1	8.5	9.1	9.0	8	5	5	5.1	5.3	5.6
F	**Financials**	**22**	**n/m**	**35**	**24**	**14.6**	**10.9**	**8.7**	**11**	**16**	**23**	**2.8**	**3.2**	**4.0**
F	Banks	15	n/m	47	30	15.9	10.8	8.3	13	24	33	2.2	2.7	3.6
F	Diversified Financials	1	31	28	16	12.7	9.9	8.5	-21	11	15	3.4	3.7	4.3
F	Insurance	4	-22	7	10	10.7	9.9	9.0	23	5	8	4.6	4.8	5.2
F	Real Estate	1	-3	4	4	21.3	20.4	19.7	-1	3	3	4.1	4.2	4.3
T	**Information Technology**	**1**	**25**	**10**	**13**	**27.4**	**25.0**	**22.1**	**12**	**6**	**10**	**1.0**	**1.0**	**1.1**
T	Software & Services	0	15	8	10	17.8	16.5	15.0	8	2	8	1.4	1.4	1.6
T	Technology Hardware & Equip	0	n/m	n/m	n/m				n/m	n/m	n/m			
T	Semiconductors & Semi Equip	0	72	16	23	60.0	51.9	42.4	25	15	15	0.5	0.6	0.7
D	**Telecommunications**	**7**	**5**	**2**	**4**	**10.5**	**10.2**	**9.8**	**11**	**11**	**7**	**4.9**	**5.4**	**5.8**
D	**Utilities**	**4**	**-6**	**4**	**9**	**12.5**	**12.0**	**11.0**	**2**	**5**	**7**	**5.0**	**5.2**	**5.6**
	MSCI UK	**100**	**54**	**21**	**12**	**12.5**	**10.4**	**9.3**	**2**	**13**	**11**	**3.1**	**3.5**	**3.9**
	MSCI UK ex-Financials	**78**	**26**	**17**	**9**	**12.0**	**10.2**	**9.4**	**-0**	**13**	**8**	**3.2**	**3.6**	**3.9**
	MSCI UK ex-Energy	**81**	**55**	**21**	**12**	**12.9**	**10.6**	**9.5**	**16**	**12**	**12**	**3.2**	**3.5**	**4.0**
C	Cyclicals	26	43	38	9	13.3	9.7	8.9	45	16	9	2.1	2.5	2.7
O	Oil & gas	19	50	18	11	11.2	9.4	8.5	-35	22	6	2.8	3.5	3.7
D	Defensives	32	7	2	6	11.4	11.2	10.5	9	8	7	4.4	4.7	5.1
T	Technology	1	25	10	13	27.4	25.0	22.1	12	6	10	1.0	1.0	1.1
F	Financials	22	n/m	35	24	14.6	10.9	8.7	11	16	23	2.8	3.2	4.0

Source: Thomson Reuters Datastream, I/B/E/S, MSCI, HSBC as at 28 March 2011

HSBC

Asia ex Japan

Earnings consensus: PE, dividend and dividend yield

		Weight (%)	EPS growth (%) 2010e	2011e	2012e	PE (x) 2010e	2011e	2012e	DPS growth (%) 2010e	2011e	2012e	Dividend yield (%) 2010e	2011e	2012e
O	**Energy**	**12**	**65.8**	**18.7**	**10.5**	**13.7**	**11.6**	**10.5**	**56.8**	**9.6**	**10.2**	**2.5**	**2.9**	**3.1**
C	**Materials**	**11**	**32.1**	**33.6**	**15.9**	**15.9**	**11.8**	**10.2**	**21.9**	**22.3**	**12.6**	**2.0**	**2.5**	**2.8**
C	**Industrials**	**10**	**79.9**	**5.2**	**14.1**	**13.9**	**13.0**	**11.4**	**38.2**	**0.7**	**10.0**	**2.2**	**2.3**	**2.6**
C	Capital Goods	7	34.4	9.3	13.6	14.7	12.9	11.3	-0.6	19.7	8.7	1.6	2.0	2.2
C	Commercial Services & Suppliers	0	-11.6	14.6	20.2	21.7	18.9	15.7	36.4	-11.6	11.3	3.8	3.5	3.8
C	Transportation	3	774.4	-3.3	15.4	12.0	12.9	11.2	118.8	-15.6	11.9	3.5	3.1	3.5
C	**Consumer Discretionary**	**7**	**24.4**	**18.7**	**15.3**	**16.2**	**13.7**	**11.9**	**9.7**	**8.1**	**14.9**	**1.5**	**1.9**	**2.2**
C	Automobiles & Components	2	43.5	14.3	11.1	12.8	11.1	10.0	22.0	17.2	12.4	1.0	1.4	1.6
C	Consumer Durables & Apparel	1	-57.3	95.1	29.9	25.1	13.2	10.3	29.3	14.9	13.0	2.8	2.9	3.3
C	Consumer Services	2	75.2	17.0	17.3	21.2	17.7	15.1	7.5	3.8	8.8	1.6	1.8	2.0
C	Media	0	10.5	-0.3	9.6	14.3	14.4	13.1	-10.0	16.2	17.7	3.4	4.1	4.9
C	Retailing	1	24.3	9.3	17.4	18.0	16.5	14.0	-1.5	-4.2	25.0	1.6	2.3	2.8
D	**Consumer staples**	**6**	**14.0**	**7.8**	**14.8**	**18.3**	**17.0**	**14.8**	**36.1**	**15.5**	**11.3**	**2.6**	**3.0**	**3.3**
D	Food & Staples Retailing	2	16.1	0.3	15.8	16.5	16.4	14.2	74.7	9.6	15.1	3.4	3.8	4.3
D	Food Beverage &Tobacco	3	13.0	10.0	14.0	17.9	16.2	14.2	16.9	20.2	7.9	2.3	2.8	3.0
D	Household & Personal Products	1	6.8	24.2	17.4	31.6	24.8	21.2	15.5	17.6	16.3	2.0	2.3	2.7
D	**Health Care**	**1**	**12.4**	**18.5**	**17.7**	**23.6**	**19.9**	**16.9**	**17.0**	**6.7**	**15.0**	**1.4**	**1.6**	**1.9**
D	Health Care Equipment & Servs	0	1.5	39.0	18.5	31.5	22.7	19.1	25.6	7.4	13.0	2.0	2.3	2.6
D	Pharmaceuticals & Biotechnology	1	15.4	13.3	17.4	21.6	19.1	16.2	11.7	6.2	16.4	1.2	1.4	1.6
F	**Financials**	**31**	**19.5**	**14.1**	**15.3**	**13.9**	**12.0**	**10.4**	**21.6**	**10.8**	**12.6**	**3.0**	**3.7**	**4.1**
F	Banks	20	23.9	14.9	15.0	12.8	10.9	9.5	41.8	11.2	13.1	3.4	4.1	4.7
F	Diversified Financials	2	0.6	22.4	13.6	17.7	14.5	12.7	1.3	19.5	12.9	2.8	3.4	3.8
F	Insurance	3	-1.2	14.9	20.6	18.5	16.0	13.3	6.9	14.5	17.3	2.0	2.4	2.8
F	Real Estate	7	17.6	9.3	14.8	14.7	13.5	11.7	-8.8	5.5	8.4	2.7	3.0	3.2
T	**Information Technology**	**10**	**49.8**	**15.8**	**20.4**	**15.7**	**13.5**	**11.1**	**11.2**	**7.4**	**10.0**	**2.1**	**2.4**	**2.6**
T	Software & Services	3	24.9	22.8	21.5	26.6	21.3	17.6	55.2	-0.6	12.0	1.0	1.0	1.1
T	Technology Hardware & Equip	3	53.6	36.8	22.3	16.7	12.3	9.9	8.3	15.6	16.5	2.5	3.3	3.9
T	Semiconductors & Semi Equip	4	61.1	2.1	18.7	11.5	11.3	9.5	3.2	4.9	3.0	2.4	2.6	2.7
D	**Telecommunications**	**7**	**-0.7**	**4.0**	**7.3**	**12.1**	**11.6**	**10.8**	**4.1**	**-4.2**	**4.5**	**5.4**	**5.2**	**5.5**
D	**Utilities**	**4**	**13.7**	**17.2**	**16.3**	**17.4**	**14.7**	**12.6**	**5.2**	**9.4**	**6.9**	**2.5**	**2.9**	**3.1**
	MSCI Asia Pacific ex-Japan	**100**	**30.0**	**15.3**	**14.5**	**14.6**	**12.6**	**11.0**	**21.7**	**8.3**	**10.8**	**2.7**	**3.0**	**3.4**
	MSCI Asia Pacific ex-Japan ex-Financials	**69**	**35.3**	**15.9**	**14.2**	**15.0**	**12.9**	**11.3**	**21.6**	**7.1**	**9.7**	**2.5**	**2.8**	**3.0**
	MSCI Asia Pacific ex-Japan ex-Energy	**88**	**25.6**	**14.8**	**15.2**	**14.8**	**12.7**	**11.0**	**17.9**	**8.2**	**10.8**	**2.7**	**3.1**	**3.4**
C	Cyclicals	28	43.8	19.5	15.2	15.2	12.6	11.0	26.0	10.8	12.1	1.9	2.3	2.5
O	Oil & gas	12	65.8	18.7	10.5	13.7	11.6	10.5	56.8	9.6	10.2	2.5	2.9	3.1
D	Defensives	18	5.8	8.2	11.6	15.3	14.1	12.6	10.6	2.7	7.0	3.6	3.8	4.0
T	Technology	10	49.8	15.8	20.4	15.7	13.5	11.1	11.2	7.4	10.0	2.1	2.4	2.6
F	Financials	31	19.5	14.1	15.3	13.9	12.0	10.4	21.6	10.8	12.6	3.0	3.7	4.1

Source: Thomson Reuters Datastream, I/B/E/S, MSCI, HSBC as at 28 March 2011

HSBC

Japan

Earnings consensus: PE dividend and dividend yield

		Weight (%)	EPS growth (%) 2010e	EPS growth (%) 2011e	EPS growth (%) 2012e	PE (x) 2010e	PE (x) 2011e	PE (x) 2012e	DPS growth (%) 2010e	DPS growth (%) 2011e	DPS growth (%) 2012e	Dividend yield (%) 2010e	Dividend yield (%) 2011e	Dividend yield (%) 2012e
O	**Energy**	**2**	**526.2**	**-4.7**	**-12.2**	**8.9**	**9.3**	**10.6**	**4.3**	**0.0**	**0.9**	**1.9**	**1.9**	**1.9**
C	**Materials**	**7**	**441.0**	**26.4**	**15.3**	**14.4**	**11.4**	**9.9**	**25.6**	**13.5**	**9.9**	**1.9**	**2.1**	**2.3**
C	**Industrials**	**19**	**119.8**	**21.2**	**11.2**	**13.4**	**11.0**	**9.9**	**39.6**	**14.7**	**9.0**	**1.9**	**2.2**	**2.4**
C	Capital Goods	15	117.7	23.3	10.7	12.9	10.5	9.5	51.0	18.2	9.1	1.8	2.2	2.4
C	Commercial Services & Suppliers	1	39.5	11.7	3.6	16.1	14.4	13.9	2.0	1.8	0.5	2.9	3.0	3.0
C	Transportation	4	162.1	14.0	15.1	14.8	12.9	11.3	20.6	6.1	11.4	1.9	2.0	2.2
C	**Consumer Discretionary**	**20**	**349.2**	**16.5**	**23.0**	**15.1**	**13.0**	**10.5**	**31.4**	**20.8**	**19.3**	**1.5**	**1.9**	**2.2**
C	Automobiles & Components	13	331.0	15.4	24.2	13.6	11.8	9.5	45.8	28.8	24.8	1.6	2.0	2.5
C	Consumer Durables & Apparel	4	n/m	29.4	27.5	21.4	16.6	13.0	5.1	11.6	7.1	1.5	1.7	1.8
C	Consumer Services	0	7.3	23.7	5.9	18.0	14.5	13.7	7.8	8.8	5.2	2.0	2.2	2.3
C	Media	1	8.0	29.2	10.6	20.1	15.5	14.0	19.5	11.7	10.8	1.6	1.8	2.0
C	Retailing	2	68.2	1.3	14.3	14.9	14.7	12.8	22.7	-5.6	9.7	1.4	1.3	1.5
D	**Consumer staples**	**6**	**22.7**	**17.8**	**14.7**	**19.1**	**16.2**	**14.1**	**3.2**	**5.3**	**5.8**	**2.3**	**2.4**	**2.5**
D	Food & Staples Retailing	1	115.1	-1.9	20.0	15.7	16.0	13.4	1.9	1.1	2.2	2.8	2.8	2.9
D	Food Beverage &Tobacco	3	2.1	29.8	12.9	20.3	15.6	13.8	4.4	8.7	8.1	2.0	2.2	2.3
D	Household & Personal Products	1	8.3	13.9	13.4	21.5	18.9	16.6	2.7	3.0	5.4	2.4	2.5	2.6
D	**Health Care**	**6**	**-9.6**	**10.8**	**0.3**	**15.9**	**14.3**	**14.3**	**3.3**	**2.1**	**2.2**	**3.1**	**3.2**	**3.3**
D	Health Care Equipment & Servs	1	-24.3	37.8	16.1	22.8	16.5	14.2	0.8	2.9	4.4	1.5	1.5	1.6
D	Pharmaceuticals & Biotechnology	5	-6.9	7.2	-2.4	15.0	14.0	14.3	3.6	2.0	2.0	3.5	3.5	3.6
F	**Financials**	**16**	**21.7**	**-6.6**	**10.0**	**11.7**	**12.6**	**11.4**	**-6.5**	**3.3**	**2.3**	**2.5**	**2.6**	**2.6**
F	Banks	8	44.1	-17.0	5.9	8.5	10.2	9.6	-7.8	0.8	0.9	2.9	2.9	3.0
F	Diversified Financials	2	-51.4	56.3	38.9	26.5	16.9	12.2	-10.9	15.9	14.0	1.8	2.1	2.3
F	Insurance	3	-12.4	14.4	11.1	20.1	17.6	15.8	1.0	3.9	0.8	2.2	2.3	2.3
F	Real Estate	3	29.4	16.8	10.3	19.9	17.0	15.4	3.8	5.7	2.8	1.9	2.2	2.3
T	**Information Technology**	**13**	**142.9**	**31.2**	**15.0**	**17.9**	**13.7**	**11.9**	**9.1**	**9.9**	**9.5**	**2.0**	**2.2**	**2.4**
T	Software & Services	3	-34.3	35.4	12.4	23.0	17.0	15.1	-27.5	8.5	13.3	2.1	2.3	2.6
T	Technology Hardware & Equip	9	302.5	23.2	14.6	15.5	12.6	11.0	27.8	9.3	8.0	2.0	2.2	2.4
T	Semiconductors & Semi Equip	1	n/m	300.2	27.3	67.3	16.8	13.2	84.0	21.6	10.4	1.6	2.0	2.2
D	**Telecommunications**	**7**	**12.6**	**7.4**	**9.1**	**11.6**	**10.8**	**9.9**	**3.0**	**5.3**	**5.3**	**2.7**	**2.8**	**3.0**
D	**Utilities**	**4**	**-14.2**	**42.9**	**11.5**	**17.7**	**12.4**	**11.1**	**1.6**	**0.3**	**2.8**	**3.5**	**3.5**	**3.6**
	MSCI Japan	**100**	**76.6**	**14.4**	**12.8**	**14.1**	**12.3**	**10.9**	**9.9**	**9.1**	**8.0**	**2.1**	**2.3**	**2.5**
	MSCI Japan ex-Financials	**84**	**97.8**	**19.2**	**13.3**	**14.7**	**12.3**	**10.9**	**15.5**	**10.4**	**9.2**	**2.1**	**2.3**	**2.5**
	MSCI Japan ex-Energy	**98**	**74.6**	**15.1**	**13.5**	**14.3**	**12.4**	**10.9**	**10.0**	**9.3**	**8.2**	**2.2**	**2.4**	**2.5**
C	Cyclicals	47	213.4	20.1	16.5	14.2	11.9	10.2	33.8	16.8	13.2	1.7	2.0	2.3
O	Oil & gas	2	526.2	-4.7	-12.2	8.9	9.3	10.6	4.3	0.0	0.9	1.9	1.9	1.9
D	Defensives	23	1.6	15.8	8.6	15.0	13.0	12.0	1.6	3.3	4.0	2.8	2.9	3.1
T	Technology	13	142.9	31.2	15.0	17.9	13.7	11.9	9.1	9.9	9.5	2.0	2.2	2.4
F	Financials	16	21.7	-6.6	10.0	11.7	12.6	11.4	-6.5	3.3	2.3	2.5	2.6	2.6

Source: Thomson Reuters Datastream, I/B/E/S, MSCI, HSBC as at 28 March 2011

HSBC

Emerging Markets

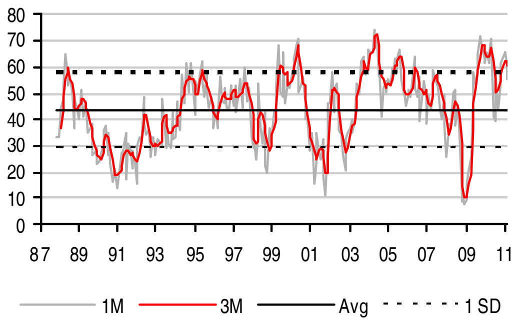
Earnings consensus: PE, dividend and dividend yield

		Weight (%)	EPS growth (%) 2010e	2011e	2012e	PE (x) 2010e	2011e	2012e	DPS growth (%) 2010e	2011e	2012e	Dividend yield (%) 2010e	2011e	2012e
O	**Energy**	**19**	**53.4**	**12.2**	**7.7**	**10.4**	**9.5**	**8.8**	**66.4**	**12.6**	**11.2**	**1.9**	**2.7**	**3.0**
C	**Materials**	**13**	**66.7**	**29.9**	**15.4**	**14.8**	**11.3**	**9.7**	**92.2**	**0.5**	**13.1**	**2.5**	**2.9**	**3.3**
C	**Industrials**	**7**	**58.9**	**10.1**	**14.2**	**14.0**	**12.4**	**10.8**	**26.8**	**22.9**	**14.9**	**1.4**	**2.0**	**2.3**
C	Capital Goods	6	34.6	10.5	13.9	14.1	12.2	10.7	6.3	28.6	16.1	1.2	1.8	2.0
C	Commercial Services & Suppliers	0	16.2	11.2	11.8	16.9	15.2	13.6	n/m	n/m	5.5	2.1	2.3	2.5
C	Transportation	2	339.9	9.1	15.2	13.5	12.7	11.0	72.4	14.5	12.5	2.0	2.7	3.0
C	**Consumer Discretionary**	**6**	**20.7**	**21.2**	**16.0**	**16.1**	**13.1**	**11.3**	**31.4**	**35.2**	**21.7**	**1.3**	**1.8**	**2.2**
C	Automobiles & Components	2	43.5	14.3	11.1	12.8	11.1	10.0	22.0	17.2	12.4	1.0	1.4	1.6
C	Consumer Durables & Apparel	1	-36.1	59.8	27.0	18.1	10.8	8.5	75.9	24.0	26.3	2.1	2.7	3.4
C	Consumer Services	0	69.6	3.7	11.8	16.6	15.1	13.5	-2.6	8.4	10.4	1.7	1.9	2.1
C	Media	1	21.6	29.7	15.6	22.0	16.9	14.7	12.9	239.0	47.0	0.8	2.5	3.6
C	Retailing	1	25.3	17.2	19.8	22.3	19.0	15.9	24.7	19.5	20.1	1.1	1.7	2.0
D	**Consumer staples**	**7**	**16.8**	**16.1**	**17.3**	**21.9**	**18.9**	**16.2**	**18.4**	**12.7**	**14.4**	**1.8**	**2.4**	**2.7**
D	Food & Staples Retailing	2	44.6	7.7	21.1	24.3	22.8	18.8	8.7	8.5	19.5	1.1	1.5	1.8
D	Food Beverage &Tobacco	4	10.1	17.7	15.7	19.7	16.7	14.5	26.1	12.4	11.1	2.1	2.8	3.1
D	Household & Personal Products	1	7.5	27.6	19.0	30.9	23.9	20.1	7.4	16.8	24.0	2.1	2.5	3.0
D	**Health Care**	**1**	**28.6**	**24.3**	**20.1**	**24.0**	**19.3**	**16.1**	**115.9**	**15.9**	**23.5**	**0.8**	**1.3**	**1.6**
D	Health Care Equipment & Servs	0	24.8	61.1	29.5	36.7	22.8	17.6	813.5	-4.3	40.3	1.0	1.7	2.4
D	Pharmaceuticals & Biotechnology	1	29.6	15.0	16.8	20.8	18.1	15.5	42.2	29.6	12.3	0.7	1.1	1.2
F	**Financials**	**24**	**26.5**	**16.7**	**16.7**	**12.8**	**10.8**	**9.3**	**32.1**	**19.3**	**16.8**	**2.2**	**3.1**	**3.6**
F	Banks	18	26.5	17.5	16.1	12.4	10.3	8.9	41.3	19.2	17.0	2.2	3.3	3.8
F	Diversified Financials	2	15.5	13.5	13.4	14.0	12.4	10.9	14.5	13.3	15.1	2.5	3.1	3.5
F	Insurance	2	32.8	11.3	17.9	17.1	15.2	12.9	21.0	22.2	14.5	1.6	2.2	2.5
F	Real Estate	2	36.2	16.3	25.5	12.0	10.5	8.3	6.5	26.7	18.0	2.1	2.8	3.3
T	**Information Technology**	**9**	**47.4**	**13.6**	**19.7**	**15.2**	**13.3**	**11.1**	**9.4**	**5.7**	**9.4**	**2.2**	**2.5**	**2.7**
T	Software & Services	3	24.1	13.0	18.3	22.8	19.9	16.8	38.7	-4.7	7.9	1.7	1.6	1.7
T	Technology Hardware & Equip	3	55.8	34.6	21.9	16.2	12.1	9.8	7.9	15.6	16.5	2.6	3.4	4.0
T	Semiconductors & Semi Equip	4	59.9	2.1	18.8	11.5	11.2	9.5	0.9	4.6	3.0	2.4	2.5	2.6
D	**Telecommunications**	**9**	**2.6**	**11.3**	**8.7**	**12.8**	**11.4**	**10.5**	**11.5**	**0.8**	**9.1**	**4.5**	**5.1**	**5.5**
D	**Utilities**	**5**	**2.9**	**13.6**	**16.9**	**14.7**	**12.9**	**11.0**	**20.7**	**14.9**	**14.5**	**2.8**	**3.4**	**3.9**
	MSCI Emerging world	**100**	**34.0**	**16.1**	**13.8**	**13.4**	**11.5**	**10.1**	**34.9**	**10.6**	**13.4**	**2.3**	**2.9**	**3.3**
	MSCI Emerging world ex-Financials	**76**	**36.2**	**15.9**	**12.8**	**13.6**	**11.7**	**10.4**	**34.7**	**8.3**	**12.2**	**2.3**	**2.8**	**3.2**
	MSCI Emerging world ex-Energy	**81**	**29.7**	**17.4**	**15.7**	**14.4**	**12.1**	**10.5**	**30.5**	**10.1**	**13.9**	**2.3**	**3.0**	**3.4**
C	Cyclicals	26	52.0	22.7	15.2	14.8	11.9	10.3	65.3	9.0	15.0	1.9	2.4	2.8
O	Oil & gas	19	53.4	12.2	7.7	10.4	9.5	8.8	66.4	12.6	11.2	1.9	2.7	3.0
D	Defensives	21	7.1	13.4	13.0	15.7	13.8	12.2	16.2	6.1	11.5	3.1	3.7	4.1
T	Technology	9	47.4	13.6	19.7	15.2	13.3	11.1	9.4	5.7	9.4	2.2	2.5	2.7
F	Financials	24	26.5	16.7	16.7	12.8	10.8	9.3	32.1	19.3	16.8	2.2	3.1	3.6

Source: Thomson Reuters Datastream, I/B/E/S, MSCI, HSBC as at 28 March 2011

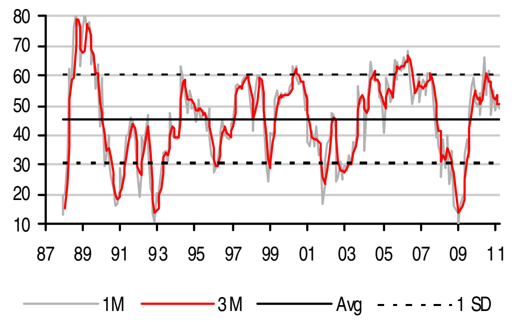
Revisions ratios: I/B/E/S consensus data (FTSE World indices) – upgrades as percentage of all revisions

US revisions ratio



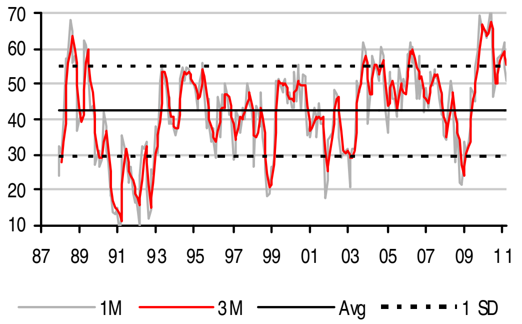
Source: Thomson Reuters Datastream, I/B/E/S, HSBC

Europe ex-UK revisions ratio



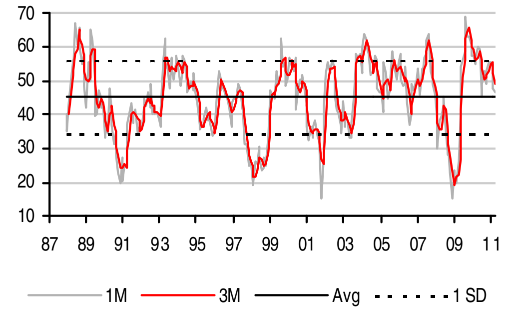
Source: Thomson Reuters Datastream, I/B/E/S, HSBC

UK revisions ratio



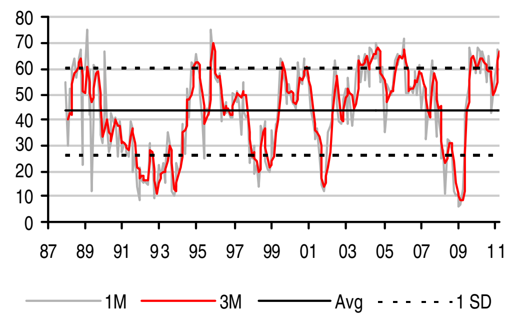
Source: Thomson Reuters Datastream, I/B/E/S, HSBC

Asia Pacific ex-Japan revisions ratio



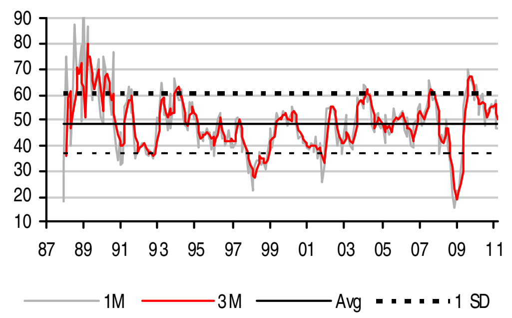
Source: Thomson Reuters Datastream, I/B/E/S, HSBC

Japan revisions ratio



Source: Thomson Reuters Datastream, I/B/E/S, HSBC

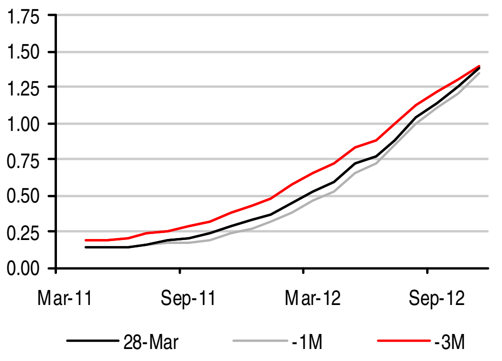
Emerging Markets revisions ratio



Source: Thomson Reuters Datastream, I/B/E/S, HSBC

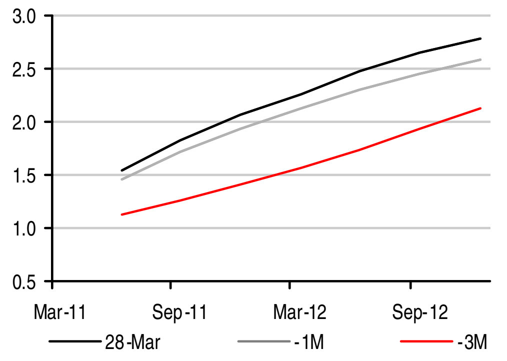
Monetary conditions

US: implied 3M rates (%)



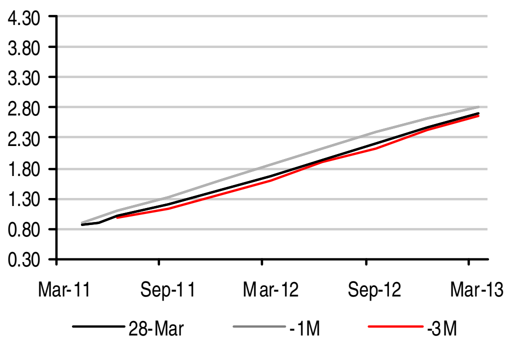
Source: Thomson Reuters Datastream, HSBC

Eurozone: implied 3M rates (%)



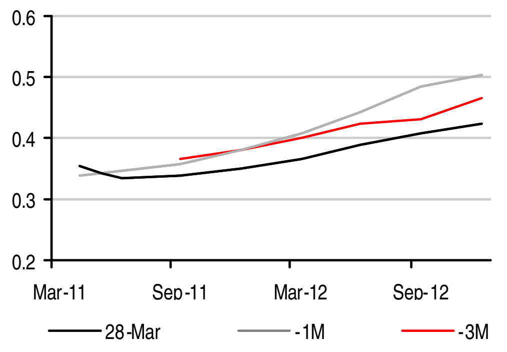
Source: Thomson Reuters Datastream, HSBC

UK: implied 3M rates (%)



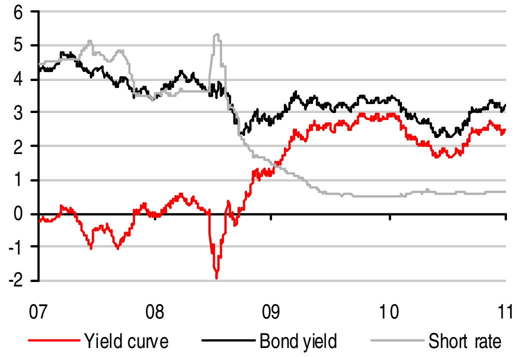
Source: Thomson Reuters Datastream, HSBC

Japan: implied 3M rates (%)



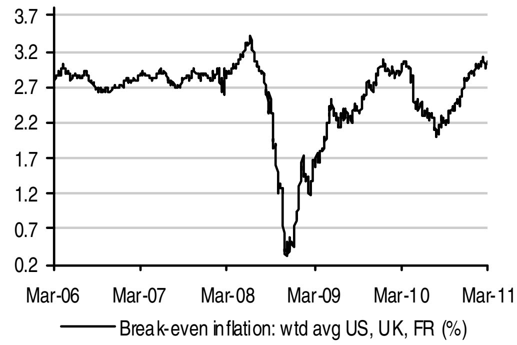
Source: Thomson Reuters Datastream, HSBC

G3 yield curve (10Y–3M, %)



Source: Thomson Reuters Datastream, HSBC

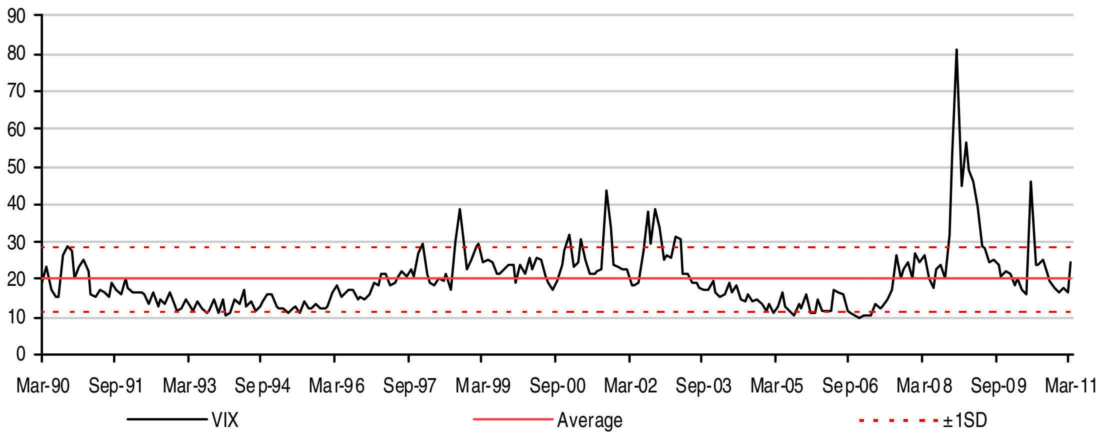
Implied inflation (%)



Source: Thomson Reuters Datastream, HSBC

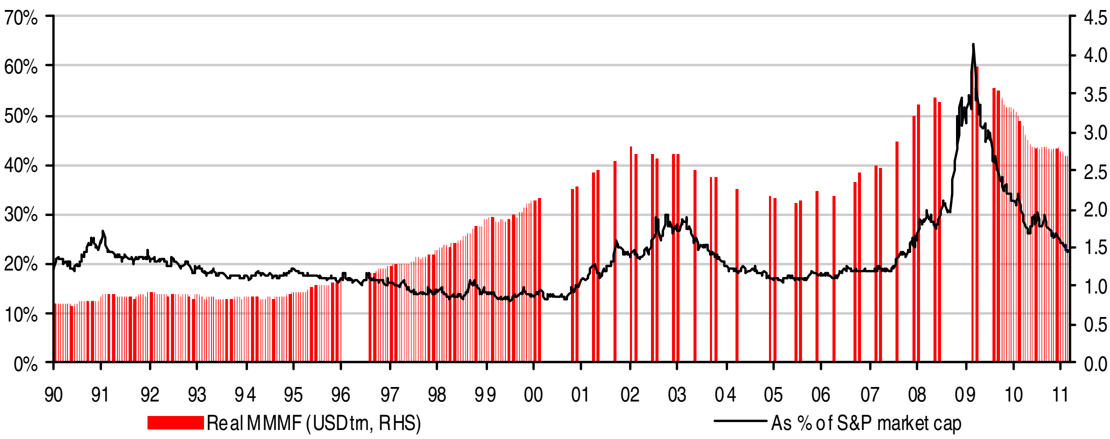
Liquidity and market conditions

VIX: Still in the sweet spot



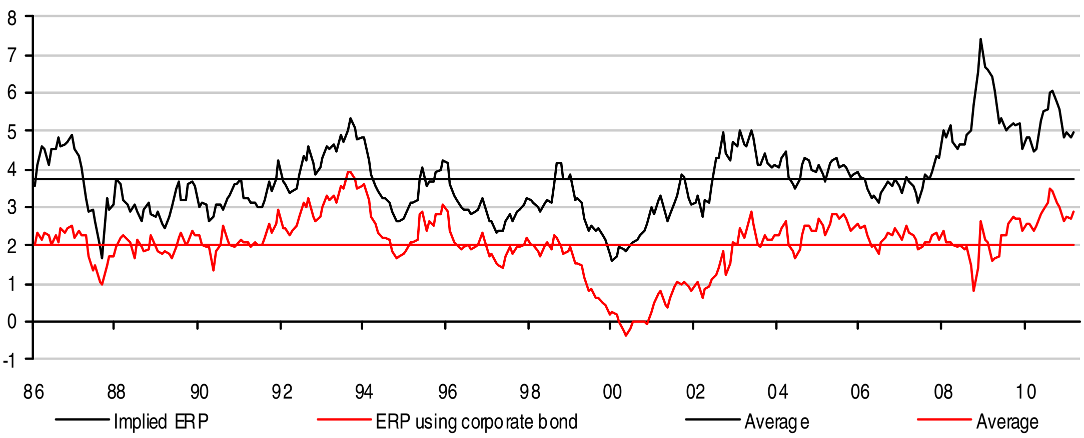
Source: Thomson Reuters Datastream, HSBC

US money market mutual funds as % of market cap



Source: Thomson Reuters Datastream, HSBC

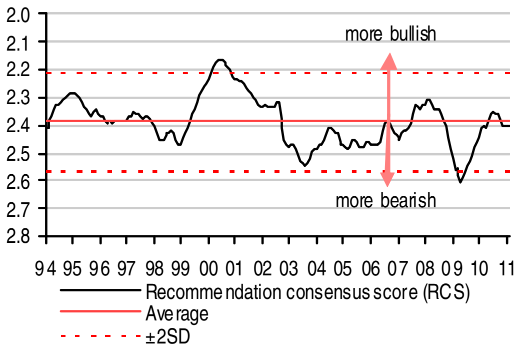
Implied US ERP using government and corporate bond



Source: Thomson Reuters Datastream, HSBC

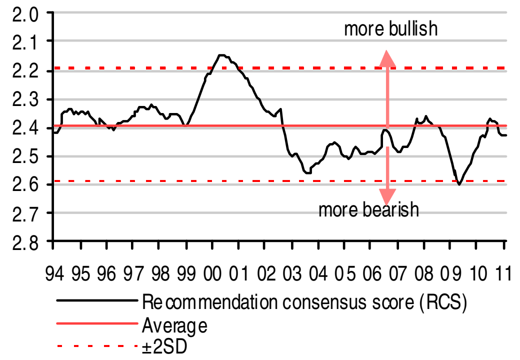
Recommendation consensus scores

MSCI All country world



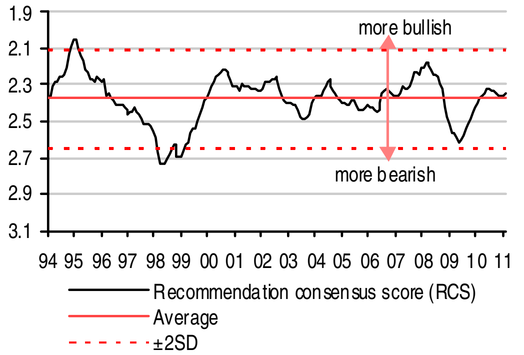
Source: Thomson Reuters Datastream, HSBC

MSCI Developed world



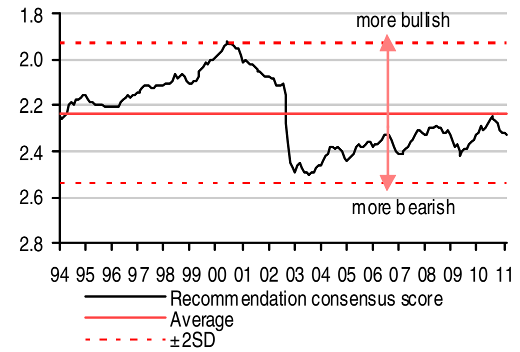
Source: Thomson Reuters Datastream, HSBC

MSCI Emerging markets



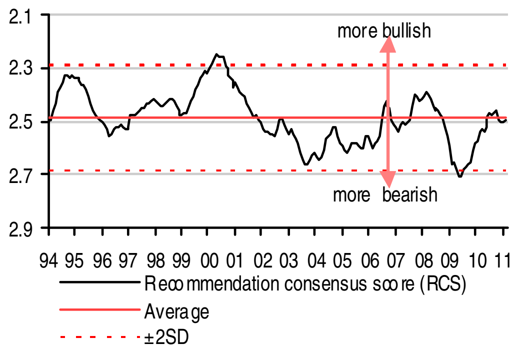
Source: Thomson Reuters Datastream, HSBC

MSCI US



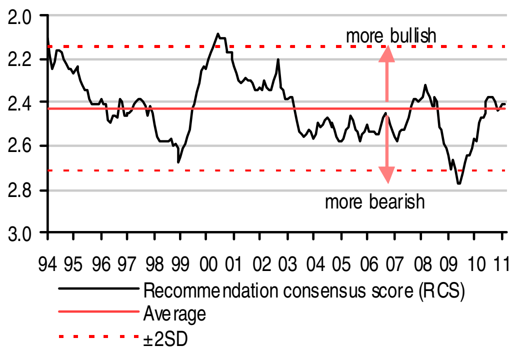
Source: Thomson Reuters Datastream, HSBC

MSCI Europe



Source: Thomson Reuters Datastream, HSBC

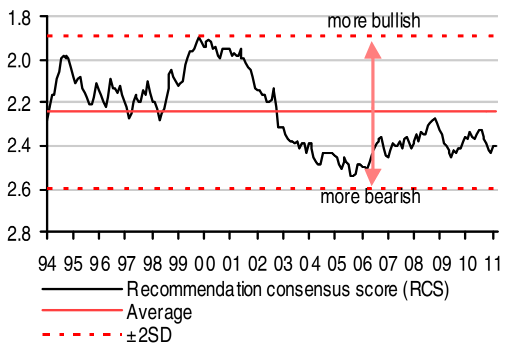
MSCI Asia Pacific ex Japan



Source: Thomson Reuters Datastream, HSBC

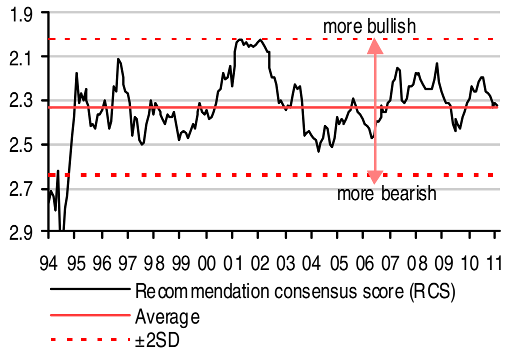
Recommendation consensus scores (cont'd)

MSCI Canada



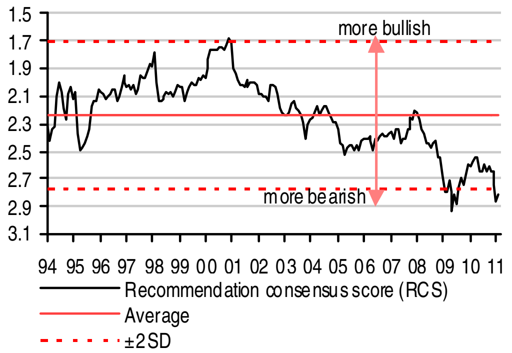
Source: Thomson Reuters Datastream, HSBC

MSCI Brazil



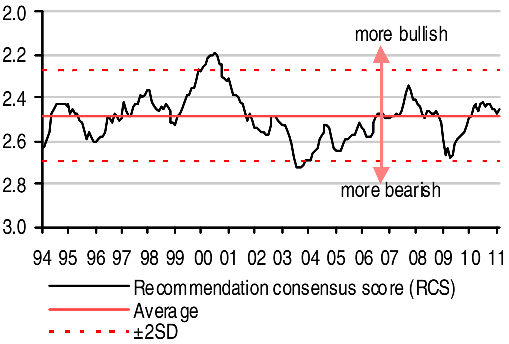
Source: Thomson Reuters Datastream, HSBC

MSCI Mexico



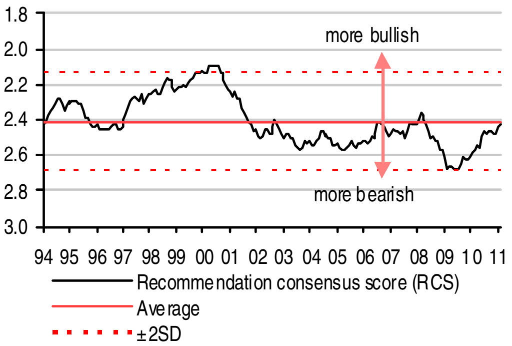
Source: Thomson Reuters Datastream, HSBC

MSCI UK



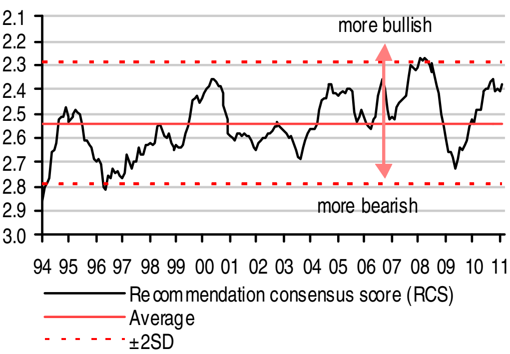
Source: Thomson Reuters Datastream, HSBC

MSCI France



Source: Thomson Reuters Datastream, HSBC

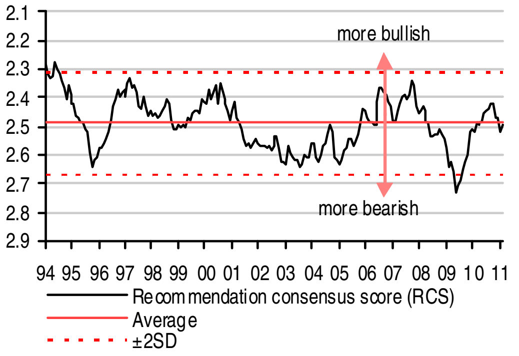
MSCI Germany



Source: Thomson Reuters Datastream, HSBC

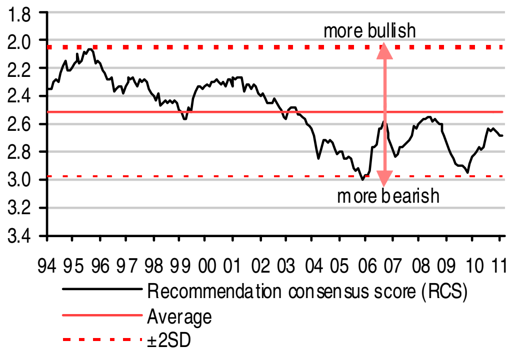
Recommendation consensus scores (cont'd)

MSCI Switzerland



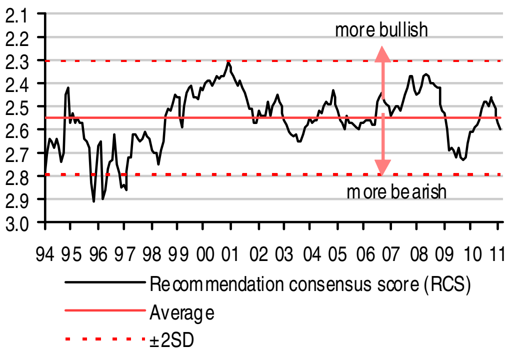
Source: Thomson Reuters Datastream, HSBC

MSCI Spain



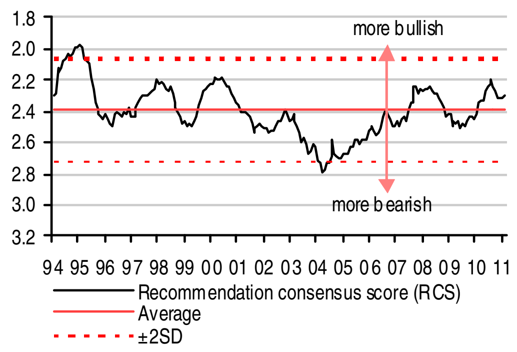
Source: Thomson Reuters Datastream, HSBC

MSCI Italy



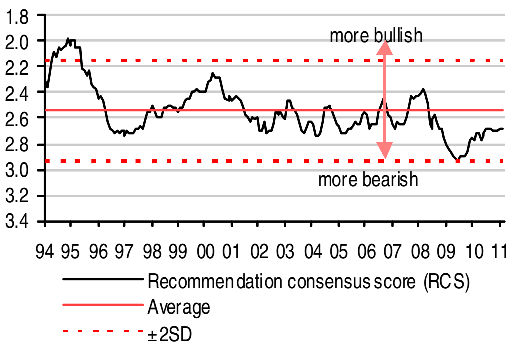
Source: Thomson Reuters Datastream, HSBC

MSCI Netherlands



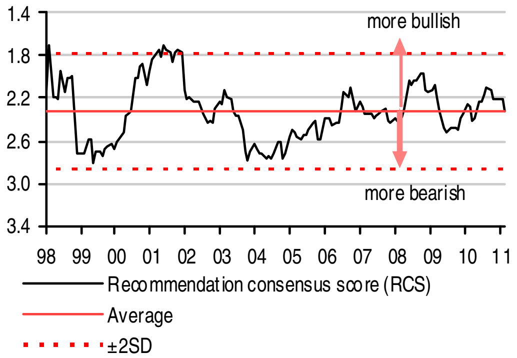
Source: Thomson Reuters Datastream, HSBC

MSCI Sweden



Source: Thomson Reuters Datastream, HSBC

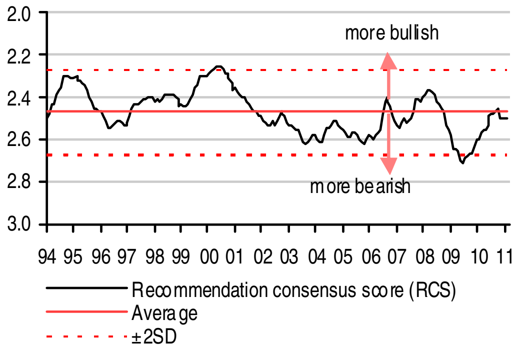
MSCI Russia



Source: Thomson Reuters Datastream, HSBC

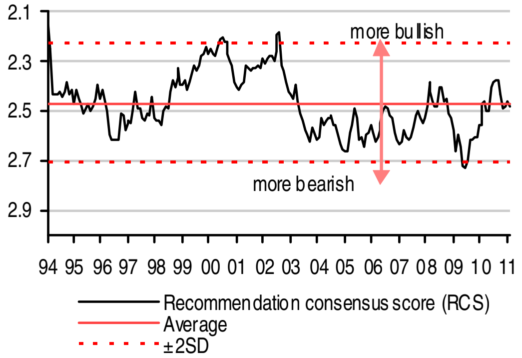
Recommendation consensus scores (cont'd)

MSCI EMU



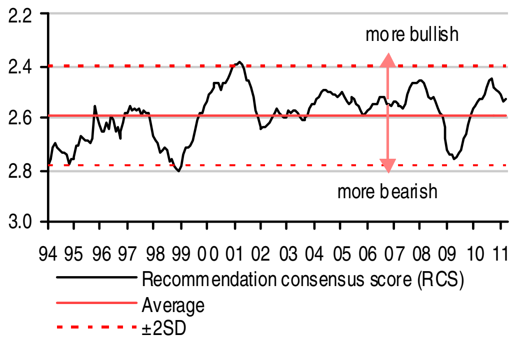
Source: Thomson Reuters Datastream, HSBC

MSCI Australia



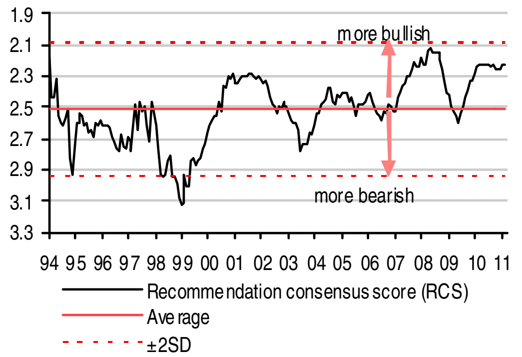
Source: Thomson Reuters Datastream, HSBC

MSCI Japan



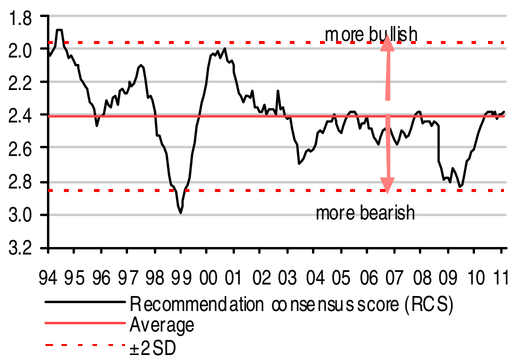
Source: Thomson Reuters Datastream, HSBC

MSCI China



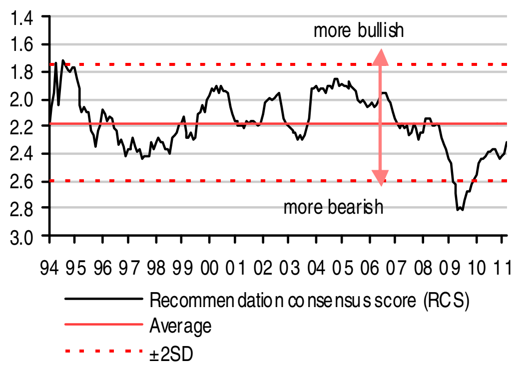
Source: Thomson Reuters Datastream, HSBC

MSCI Hong Kong



Source: Thomson Reuters Datastream, HSBC

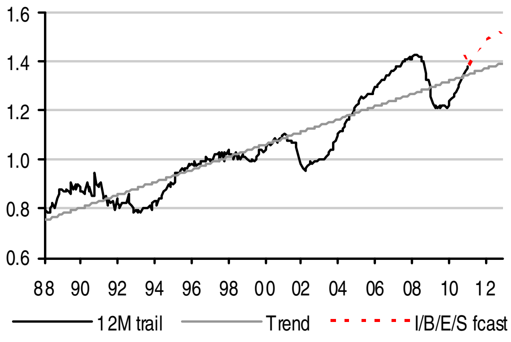
MSCI India



Source: Thomson Reuters Datastream, HSBC

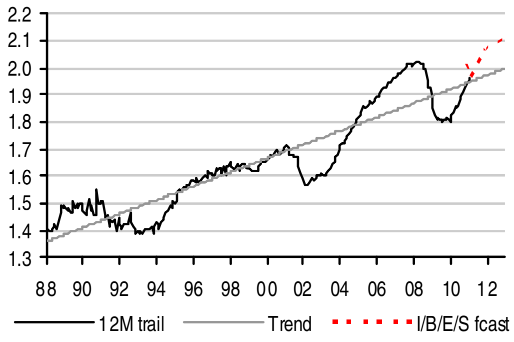
I/B/E/S EPS vs peak and trend – regions

MSCI All country World



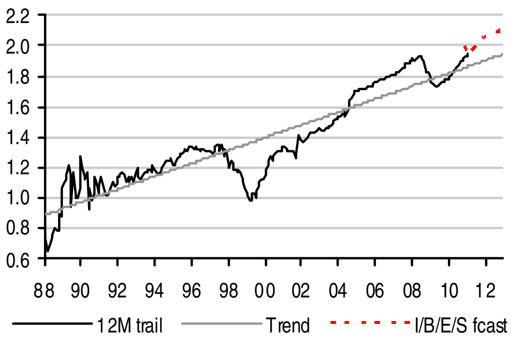
Source: Thomson Reuters Datastream, I/B/E/S, HSBC

MSCI Developed World



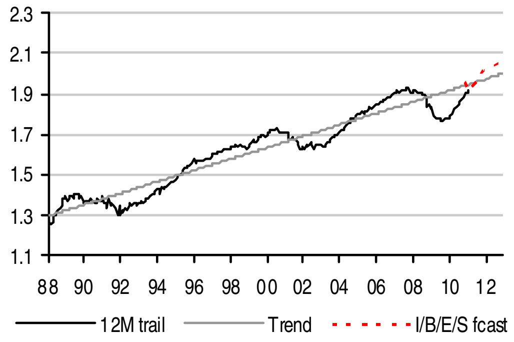
Source: Thomson Reuters Datastream, I/B/E/S, HSBC

MSCI Emerging Markets



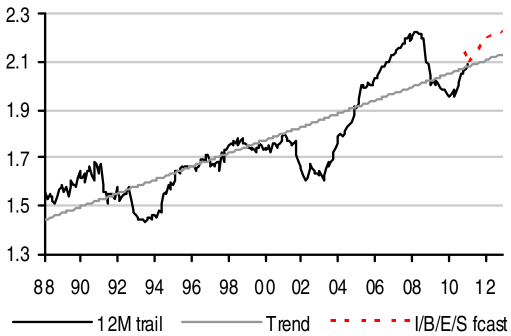
Source: Thomson Reuters Datastream, I/B/E/S, HSBC

MSCI US



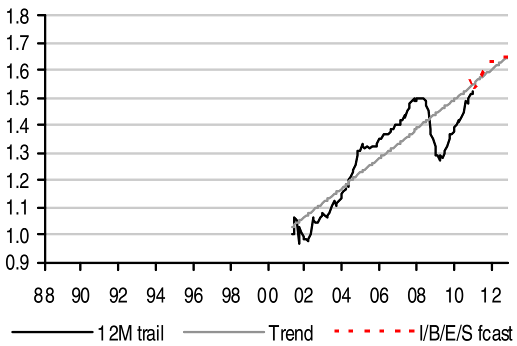
Source: Thomson Reuters Datastream, I/B/E/S, HSBC

MSCI Europe



Source: Thomson Reuters Datastream, I/B/E/S, HSBC

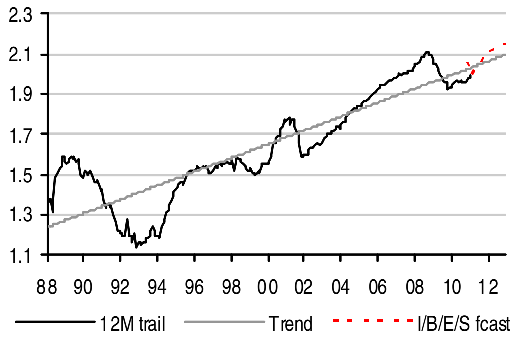
MSCI Asia Pacific ex Japan



Source: Thomson Reuters Datastream, I/B/E/S, HSBC

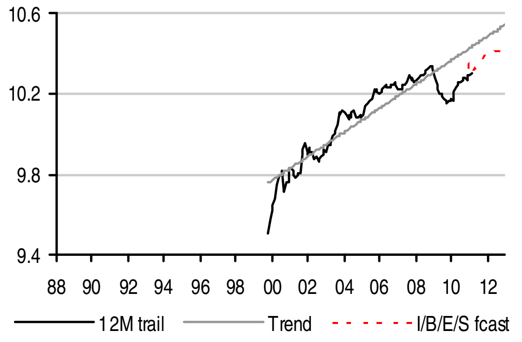
I/B/E/S EPS vs peak and trend – regions

MSCI Canada



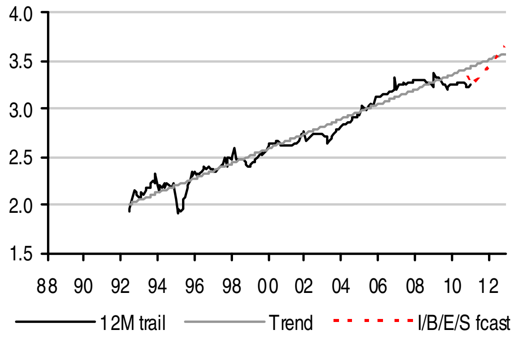
Source: Thomson Reuters Datastream, I/B/E/S, HSBC

MSCI Brazil



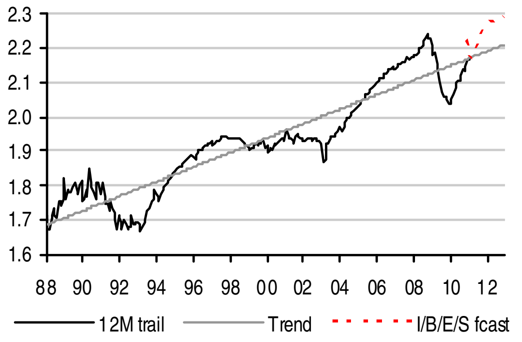
Source: Thomson Reuters Datastream, I/B/E/S, HSBC

MSCI Mexico



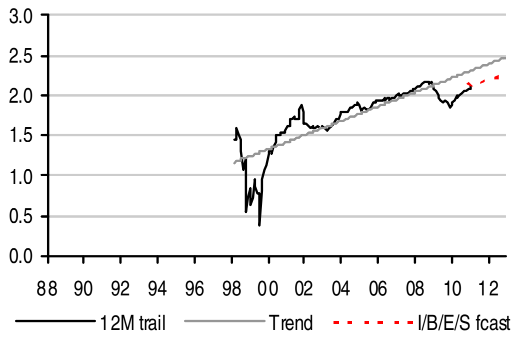
Source: Thomson Reuters Datastream, I/B/E/S, HSBC

MSCI UK



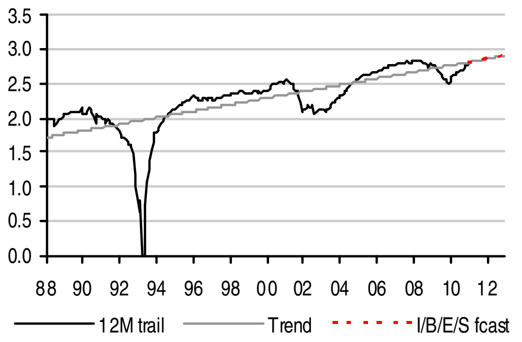
Source: Thomson Reuters Datastream, I/B/E/S, HSBC

MSCI Russia



Source: Thomson Reuters Datastream, I/B/E/S, HSBC

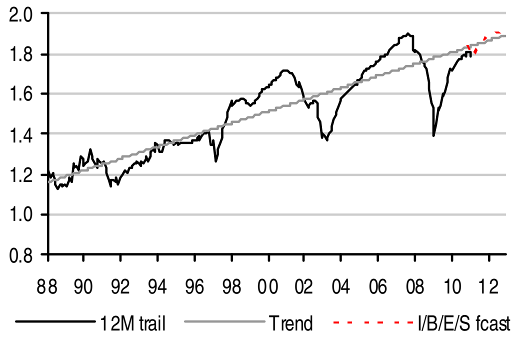
MSCI Sweden



Source: Thomson Reuters Datastream, I/B/E/S, HSBC

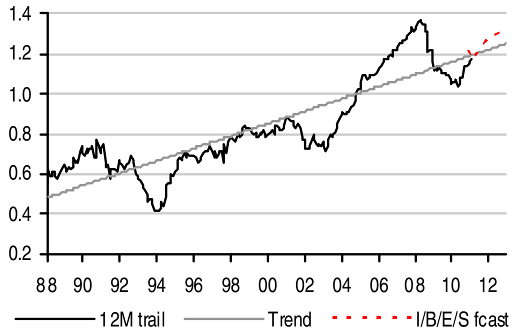
I/B/E/S EPS vs peak and trend – regions

MSCI Switzerland



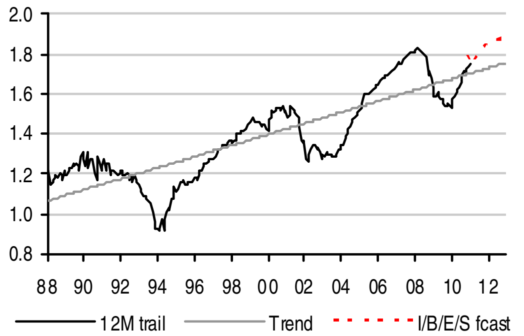
Source: Thomson Reuters Datastream, I/B/E/S, HSBC

MSCI EMU



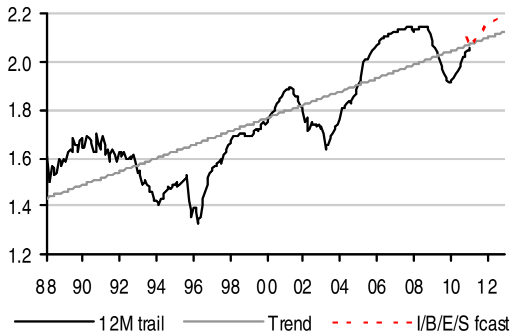
Source: Thomson Reuters Datastream, I/B/E/S, HSBC

MSCI Germany



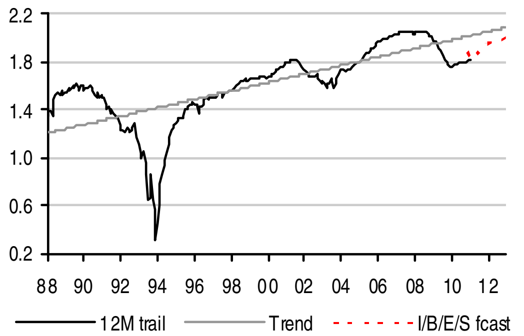
Source: Thomson Reuters Datastream, I/B/E/S, HSBC

MSCI France



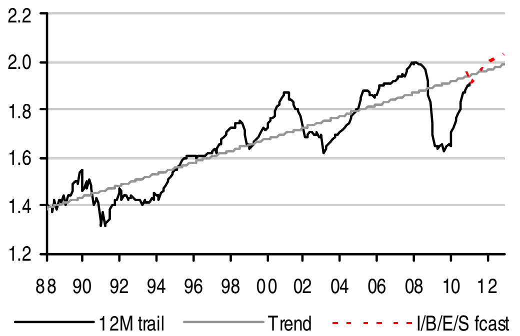
Source: Thomson Reuters Datastream, I/B/E/S, HSBC

MSCI Italy



Source: Thomson Reuters Datastream, I/B/E/S, HSBC

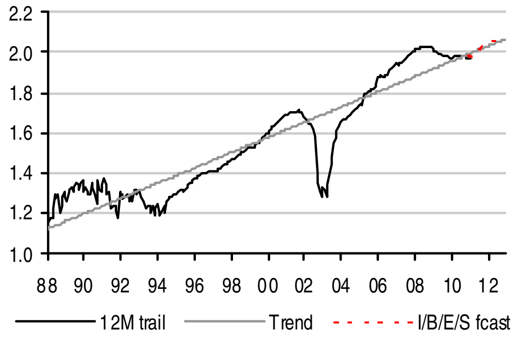
MSCI Netherlands



Source: Thomson Reuters Datastream, I/B/E/S, HSBC

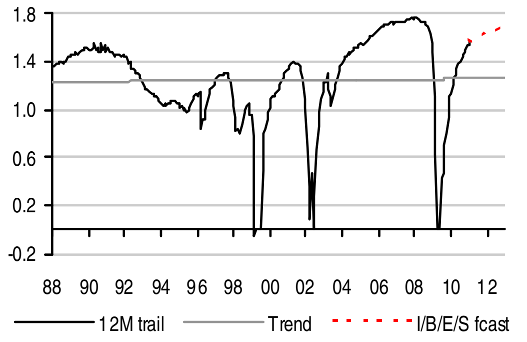
I/B/E/S EPS vs peak and trend – regions

MSCI Spain



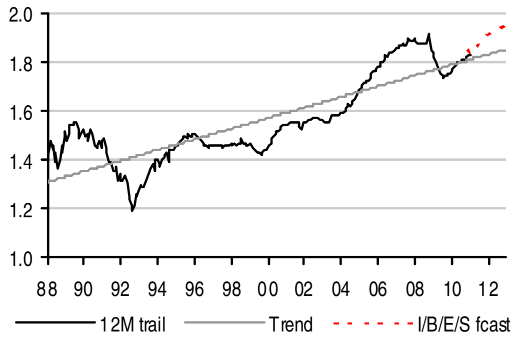
Source: Thomson Reuters Datastream, I/B/E/S, HSBC

MSCI Japan



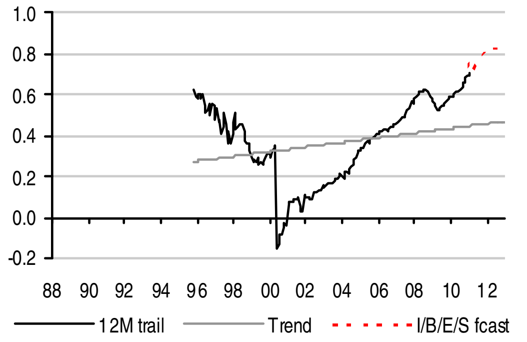
Source: Thomson Reuters Datastream, I/B/E/S, HSBC

MSCI Australia



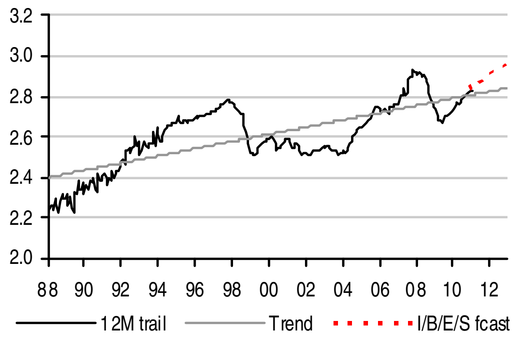
Source: Thomson Reuters Datastream, I/B/E/S, HSBC

MSCI China



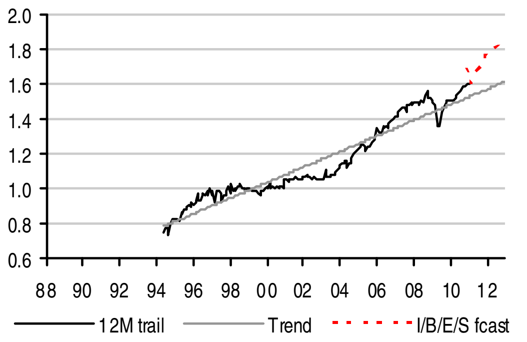
Source: Thomson Reuters Datastream, I/B/E/S, HSBC

MSCI Hong Kong



Source: Thomson Reuters Datastream, I/B/E/S, HSBC

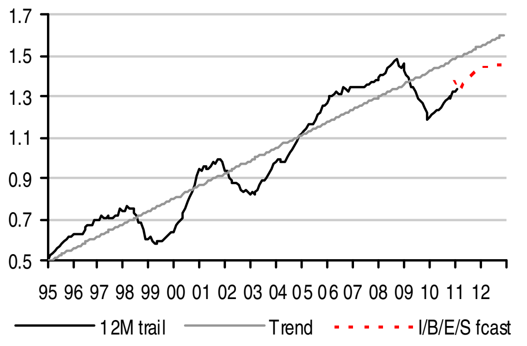
MSCI India



Source: Thomson Reuters Datastream, I/B/E/S, HSBC

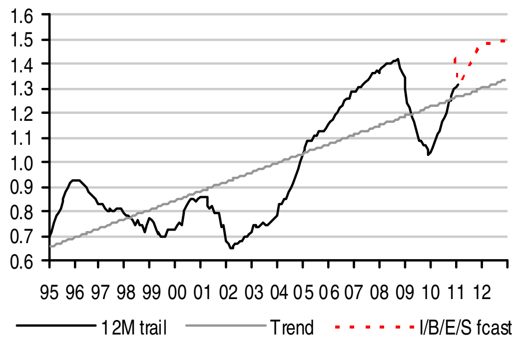
I/B/E/S EPS vs peak and trend – global sectors

Energy



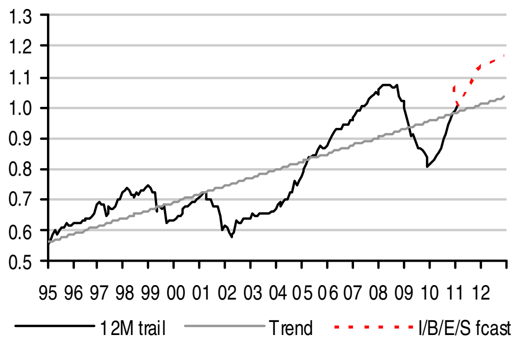
Source: Thomson Reuters Datastream, I/B/E/S, HSBC

Materials



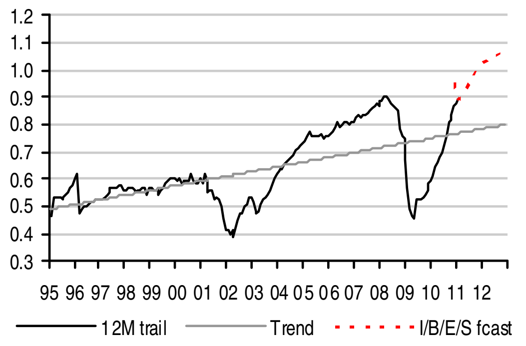
Source: Thomson Reuters Datastream, I/B/E/S, HSBC

Industrials



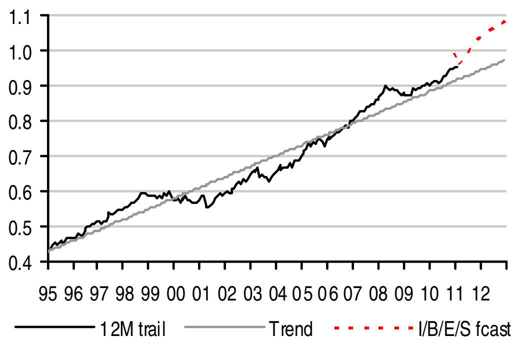
Source: Thomson Reuters Datastream, I/B/E/S, HSBC

Consumer Discretionary



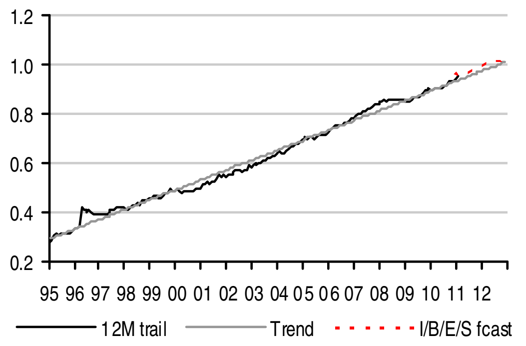
Source: Thomson Reuters Datastream, I/B/E/S, HSBC

Consumer Staples



Source: Thomson Reuters Datastream, I/B/E/S, HSBC

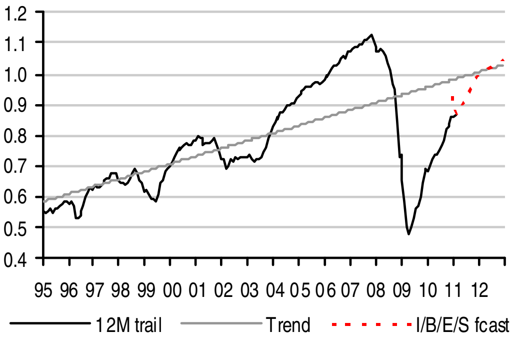
Health Care



Source: Thomson Reuters Datastream, I/B/E/S, HSBC

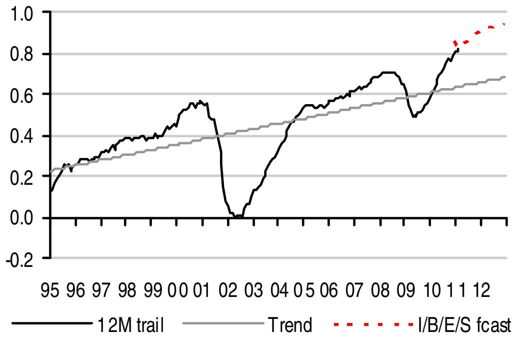
I/B/E/S EPS vs peak and trend (cont'd)

Financials



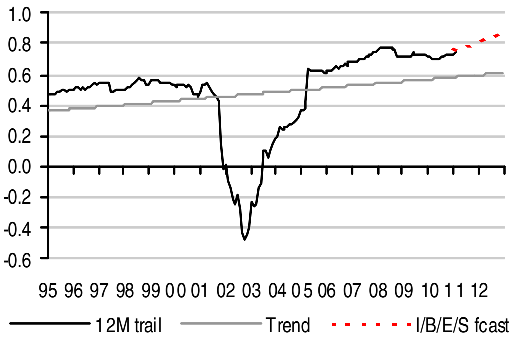
Source: Thomson Reuters Datastream, I/B/E/S, HSBC

IT



Source: Thomson Reuters Datastream, I/B/E/S, HSBC

Telecoms



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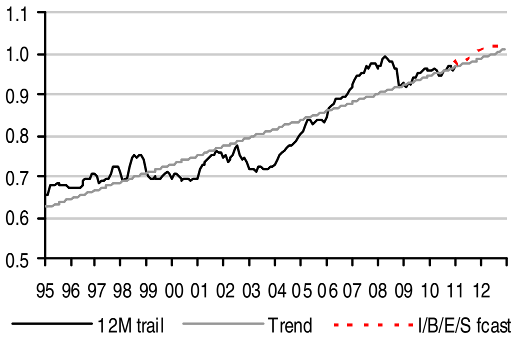
Utilities



Source: Thomson Reuters Datastream, I/B/E/S, HSBC

MSCI World Countries12 month forward PE analysis (absolute and relative to the World index)

	Absolute							Relative						
	28 Mar-11	Average		Max	Min	# std devs current from		28 Mar-11	Average		Max	Min	# std devs current from	
		1995 on	5Y			avg since 1995	5Y avg		1995 on	5Y			avg since 1995	5Y avg
MSCI AC WORLD	11.5	16.5	13.0	24.4	8.9	-1.4	-1.0	100.0	100.0	100.0	100.0	100.0		
MSCI Fmr THE WORLD INDEX	11.7	16.8	13.2	25.0	9.1	-1.4	-1.0	101.4	102.1	101.5	110.1	99.9	-0.4	-0.0
MSCI EMG	10.6	12.2	11.5	19.8	7.1	-0.6	-0.6	91.7	75.6	88.9	108.1	48.0	1.1	0.5
MSCI AC AMERICAS INDEX	12.7	15.3	13.5	22.0	9.5	-1.0	-0.6	109.8	104.4	104.7	110.6	70.9	1.3	1.0
MSCI U.S.A	12.6	17.0	13.8	25.2	9.8	-1.2	-0.8	109.6	103.3	106.3	115.2	84.8	1.0	1.0
MSCI CANADA	14.2	15.6	13.7	25.8	8.0	-0.5	0.3	123.2	95.6	106.0	123.2	75.1	2.8	2.4
MSCI BRAZIL	10.1	8.1	10.0	13.6	4.2	0.9	0.1	87.4	52.6	77.1	99.9	21.3	1.6	0.8
MSCI MEXICO	14.0	11.9	13.2	16.2	8.0	1.2	0.4	121.4	75.6	101.8	128.9	37.5	2.1	1.7
MSCI EUROPE	10.2	15.3	11.4	23.9	7.7	-1.3	-0.8	88.2	92.1	87.8	108.5	79.4	-0.7	0.1
MSCI EUROPE ex UK	10.4	15.4	11.6	25.7	7.9	-1.2	-0.8	90.3	92.5	89.3	116.5	79.1	-0.4	0.3
MSCI EMU	10.0	15.4	11.2	26.9	7.4	-1.2	-0.8	86.4	92.0	86.3	121.8	75.3	-0.7	0.0
MSCI UNITED KINGDOM	9.7	15.2	11.0	24.4	7.3	-1.4	-0.9	84.2	91.9	84.7	124.2	76.2	-0.6	-0.2
MSCI FRANCE	10.0	16.0	11.2	28.9	7.5	-1.2	-0.8	86.4	95.3	86.2	131.0	78.8	-0.9	0.1
MSCI GERMANY	10.1	16.3	11.6	31.1	7.9	-1.3	-1.1	87.3	97.3	89.1	128.8	78.9	-0.9	-0.7
MSCI SWITZERLAND	11.3	15.8	12.9	23.4	9.9	-1.5	-1.1	98.4	96.5	99.6	123.1	76.7	0.2	-0.2
MSCI SPAIN	9.2	14.0	10.7	25.2	7.0	-1.2	-0.8	80.0	84.0	81.9	117.1	63.1	-0.4	-0.2
MSCI ITALY	9.6	15.9	10.7	28.4	6.8	-1.3	-0.6	83.0	94.5	81.9	127.7	65.8	-1.0	0.2
MSCI NETHERLANDS	9.6	14.4	11.3	22.8	7.4	-1.3	-1.0	83.6	86.4	87.0	101.5	68.7	-0.4	-0.8
MSCI SWEDEN	12.0	16.2	13.5	35.6	8.3	-0.9	-0.6	104.2	98.1	103.6	161.1	61.1	0.4	0.0
MSCI RUSSIA	6.6	8.0	8.4	22.8	2.5	-0.5	-0.7	57.1	51.3	63.5	109.3	13.8	0.3	-0.4
MSCI AC ASIA-PACIFIC	11.4	19.4	14.8	36.6	10.2	-1.3	-1.6	98.7	116.5	113.9	177.8	90.7	-0.9	-1.4
I/B/E/S MSCI APXJ	11.6	12.8	13.2	16.4	8.8	-0.8	-1.0	100.7	89.3	101.8	115.0	61.7	0.8	-0.2
MSCI JAPAN	11.0	26.0	17.3	49.0	11.0	-1.4	-1.4	95.5	155.1	133.4	308.7	95.5	-1.2	-1.2
MSCI AUSTRALIA	11.5	14.8	13.4	20.7	8.5	-1.6	-1.0	99.4	91.5	102.9	114.6	73.9	0.8	-0.8
MSCI CHINA	10.9	13.1	13.6	35.0	6.0	-0.5	-0.9	94.1	81.6	104.5	167.1	29.8	0.5	-0.6
MSCI KOREA	9.4	10.2	10.5	20.3	5.5	-0.3	-0.9	81.3	64.0	81.6	103.4	26.4	1.0	-0.0
MSCI TAIWAN	11.9	17.0	14.9	33.2	9.5	-0.9	-0.6	103.0	104.6	116.7	268.5	53.5	-0.0	-0.3
MSCI HONG KONG	15.5	15.2	16.0	21.9	7.5	0.1	-0.2	134.7	95.9	123.9	152.9	36.9	1.6	1.0
MSCI INDIA	14.4	13.5	16.3	22.6	8.4	0.3	-0.7	124.5	86.9	124.9	162.8	42.5	1.2	-0.0
MSCI SINGAPORE	12.8	15.7	14.1	24.0	9.1	-1.0	-0.7	111.2	97.0	108.4	135.7	54.0	0.9	0.5

Source: Thomson Reuters Datastream, I/B/E/S, HSBC

MSCI AC World sectors: 12 month forward PE analysis (absolute and relative to the World index)

	Absolute							Relative						
	28 Mar-11	Average		Max	Min	# std devs current from		28 Mar-11	Average		Max	Min	# std devs current from	
		1995 on	5Y			avg since 1995	5Y avg		1995 on	5Y			avg since 1995	5Y avg
Energy	10.9	14.3	10.8	25.1	6.1	-0.9	0.1	94.4	86.4	83.1	107.7	66.4	0.9	1.8
Materials	10.5	13.8	12.3	20.1	5.7	-1.3	-0.7	91.3	85.2	94.4	126.5	50.1	0.4	-0.2
Industrials	12.5	16.5	14.1	23.3	8.5	-1.5	-0.8	108.2	101.5	108.4	118.9	70.5	0.6	-0.0
Capital Goods	12.2	16.4	13.7	24.9	7.9	-1.4	-0.7	105.5	100.5	105.2	114.4	66.0	0.5	0.0
Commercial Services & Suppliers	15.1	18.5	15.7	24.8	10.9	-1.1	-0.4	130.7	113.7	121.4	132.2	83.6	1.7	1.4
Transportation	13.1	16.2	15.3	28.3	10.5	-1.4	-1.0	113.5	101.1	118.4	144.0	65.3	0.7	-0.4
Consumer Discretionary	12.8	18.4	15.8	28.2	10.5	-1.5	-1.1	110.7	112.7	122.4	191.8	82.6	-0.1	-0.6
Automobiles & Components	9.6	15.4	20.6	189.0	8.5	-0.3	-0.4	83.0	99.6	162.2	1461.9	57.3	-0.1	-0.3
Consumer Durables & Apparel	14.0	18.0	16.8	28.9	8.6	-1.0	-0.8	121.5	110.9	129.9	208.2	51.2	0.5	-0.3
Consumer Services	15.6	17.6	16.3	23.2	11.3	-0.9	-0.3	135.6	110.0	126.1	138.8	75.3	1.5	0.9
Media	13.4	27.3	15.3	62.5	9.6	-1.2	-0.5	116.4	159.1	117.1	273.6	85.7	-1.1	-0.0
Retailing	15.0	19.3	15.3	36.0	10.6	-0.9	-0.2	129.7	116.9	118.2	149.6	92.1	1.4	1.5
Consumer staples	13.7	17.5	15.4	24.0	12.0	-1.6	-1.0	118.6	108.3	119.2	144.1	71.4	0.8	-0.1
Food & Staples Retailing	13.1	17.6	15.1	24.7	12.2	-1.6	-1.1	113.4	108.4	116.7	139.3	81.4	0.4	-0.3
Food Beverage &Tobacco	13.6	16.6	15.1	22.7	11.8	-1.4	-0.8	118.4	103.2	117.0	141.9	62.2	1.0	0.1
Household & Personal Products	14.7	21.0	17.0	32.3	12.6	-1.5	-1.0	127.8	128.4	131.6	159.4	96.8	-0.0	-0.3
Health Care	11.1	19.2	13.5	30.1	10.2	-1.5	-1.0	96.2	114.9	104.1	143.5	77.7	-1.4	-0.5
Health Care Equipment & Servs	13.3	17.3	14.7	26.4	10.0	-1.2	-0.5	115.6	106.8	112.9	138.1	70.2	0.5	0.2
Pharmaceuticals & Biotechnology	10.5	19.4	13.1	31.9	10.0	-1.5	-1.1	90.7	115.7	101.5	151.1	76.6	-1.6	-0.7
Financials	10.5	13.6	11.4	19.7	7.8	-1.3	-0.6	90.8	83.4	87.9	103.6	65.3	0.9	0.5
Banks	9.9	13.0	11.1	18.8	7.1	-1.3	-0.7	85.7	79.8	85.8	107.9	55.6	0.5	-0.0
Diversified Financials	10.0	13.6	11.7	19.9	7.8	-1.5	-1.0	86.3	83.4	90.3	111.1	67.2	0.3	-0.4
Insurance	10.2	14.7	9.9	25.0	6.2	-0.9	0.2	88.4	87.8	76.5	120.0	57.5	0.0	1.8
Real Estate	17.9	18.4	19.7	28.4	10.8	-0.1	-0.5	155.4	116.8	151.4	190.5	56.1	1.2	0.2
Information Technology	12.3	23.1	16.0	49.9	11.0	-1.2	-1.5	106.6	136.8	122.9	226.1	94.8	-1.2	-1.6
Software & Services	13.7	27.3	17.0	67.4	11.1	-1.2	-1.0	118.5	159.6	130.0	298.4	99.2	-1.2	-0.7
Technology Hardware & Equip	11.7	22.2	15.4	55.1	10.2	-1.2	-1.6	101.9	131.6	118.6	262.7	86.9	-1.0	-1.8
Semiconductors & Semi Equip	11.1	26.6	30.6	632.0	8.6	-0.2	-0.2	95.9	208.9	255.8	5891.0	58.5	-0.2	-0.2
Telecommunications	11.4	20.5	12.5	49.1	9.3	-1.0	-0.6	98.8	122.1	96.5	268.4	75.6	-0.5	0.3
Utilities	11.9	14.2	13.6	17.9	10.3	-1.2	-0.9	103.4	88.4	105.2	128.8	58.8	1.0	-0.1
AC World	11.5	16.5	13.0	24.4	8.9	-1.4	-1.0							

Source: Thomson Reuters Datastream, I/B/E/S, HSBC

Notes

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Disclosure appendix

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Issuer of report

The Hongkong and Shanghai Banking Corporation Limited

Level 19, 1 Queen's Road Central
Hong Kong SAR
Telephone: +852 2843 9111
Telex: 75100 CAPEL HX
Fax: +852 2596 0200
Website: www.research.hsbc.com

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Global Equity Strategy Research Team

Global

Garry Evans
Global Head of Equity Strategy
+852 2996 6916 garryevans@hsbc.com.hk

EU and US

Peter Sullivan
Head of Equity Strategy, EU and US
+44 20 7991 6702 peter.sullivan@hsbcib.com

Europe

Robert Parkes
+44 20 7991 6716 robert.parkes@hsbcib.com

CEEMEA

John Lomax
+44 20 7992 3712 john.lomax@hsbcib.com

Wietse Nijenhuis
+44 20 7992 3680 wietse.nijenhuis@hsbcib.com

Asia

Garry Evans
+852 2996 6916 garryevans@hsbc.com.hk

Steven Sun
+852 2822 4298 stevensun@hsbc.com.hk

Jacqueline Tse
+852 2996 6602 jacquelinetse@hsbc.com.hk

Vivek Misra
+91 80 3001 3699 vivekmisra@hsbc.co.in