

Quarterly Allocations

Long-term view: prepared 12 January 2009

Asset Class	Comment	Weightings	
		Current Quarter	Last Quarter
Cash	Cash may hold up better than equities for a few more months, but yields are very low in both nominal and real terms (compared to inflation). The euro is favoured, given the slightly higher deposit rate relative to US dollars. We also forecast that euro appreciation against the US dollar will resume over the next 12 months.	Neutral	Neutral
Bonds	Bond yields should stabilise and then rise over the next 12 months, as the global economy begins to move out of recession, even though inflation is likely to stay low and systemic deflation, for a while, will stay a significant risk. Debt issuance will also soar during the rest of 2009 to finance fiscal stimulus programmes and the financial sector bail-outs.	Neutral	Neutral
US	Yields should stabilise and then rise (prices move down). The economic environment should remain bond friendly for a while. US headline inflation is likely to slow to zero soon and the Fed could soon start to directly buy US Treasuries. Yet disinflation and possible deflation now looks priced in. Longer term, yields should move up on rising issuance, as economic recovery starts to kick-in and as safe-haven buying diminishes and investors shift to higher yielding alternatives such as corporate bonds.	-	Neutral
Europe	Near term, there is more scope, compared to the US, for European government bond markets to rally further as central bank rates are still some way above zero. However, debt issuance will rise sharply in Europe, too and a big bond market sell-off is likely at some point this year, once economic activity starts to revive.	-	Neutral
Japan	Japanese bonds yields will stay low compared to elsewhere (prices too high) and the only way is up, long term, for BOJ rates.	-	-
Emerging Markets	The default risk has increased, given the severe economic slowdowns. All the key countries have stronger finances and increased resilience to cope with the difficult 2009 economic environment. Spreads will stay wide until the credit markets significantly improve and risk appetite picks up, but should be lower than current levels in 12 months' time.	+	+
Alternative Investments	Aim to be relatively uncorrelated with other asset classes and have good risk and return characteristics. Directional funds offer a way to hold equities exposure, whilst providing some protection against the likely continued very high volatility in the markets. The absolute return mutual funds have low volatility and low correlations to long-term bonds, as well as to equities and have historically performed well in difficult market conditions.	Neutral	Neutral
Equity	We expect continued high volatility and more downside over the next few months. Credit conditions are only improving slowly and the impact of recessions on non-financial sector profits and dividends has still to fully come through. Valuations are also only reasonable, rather than unambiguously cheap. Therefore, we remain underweight equities on a next three-month tactical view, but are more positive on a 12-month time horizon, with Asia/Emerging Markets and Europe expected fare best.	Neutral	Neutral
US	The Obama fiscal stimulus will ease the pain of recession, but the pull back in private sector spending still has a long way to go. Some recovery is likely in the second half of 2009, but the pick-up in Asia should be stronger. Valuations are reasonable but not cheap and 2009 consensus expectations on corporate profits, which forecast a small gain relative to 2008, still look too high, especially for non-financial sector corporates.	-	-
Europe	The Eurozone recession will be severe but, probably, will not be as bad as the long recessions predicted in the US and UK. Valuations are more attractive than in the US, dividend yields are generally higher and 2009 expectations on corporate profits look more realistic.	Neutral	Neutral
Japan	The long-term structural draw-backs - low productivity growth, low population growth, high government debt - should continue to offset the positives. The positives are cheap valuations, rapidly rising dividends and (for the contrarians) extreme investor pessimism.	-	-
Emerging Markets	Emerging equities should outperform in 2009. Near term, any further US weakness will inevitably also pull emerging stocks down. However, Asia/Emerging Markets economies should be the first to significantly recover, despite being the last to turn weaker. More bad news is likely near term, but with the large policy stimulus now in place, relatively low debt levels and reasonably sound financial systems should hold up domestic demand.	+	+

- Indicates Underweight
 - - Indicates Strong Underweight
 - - - Indicates Very Strong Underweight
 + Indicates Overweight
 ++ Indicates Strong Overweight
 +++ Indicates Very Strong Overweight

Weightings shown here represent the Standard Chartered Bank Asset Allocation Committee's general view with a one-year outlook. In using these allocations to evaluate an individual portfolio, a client's time horizon, risk profile, specific objectives and preferences must be considered.

This document is for information purposes only and does not constitute a recommendation or an offer to invest in any product or use any service. The products and services described in this document may not be suitable for everyone and they may not be available in certain jurisdictions. You should obtain sufficient information on relevant products, services and charges in order for you to make an informed decision prior to making any commitment.

The opinions and forecasts expressed represent the views of the Asset Allocation Committee at the time of preparation and are subject to change in light of market and economic conditions. They should not be interpreted as investment advice.