

Global Investment Perspective

In November, global equity markets rose following the slight pullback in October. The MSCI World index gained 3.1% in November on ongoing signs that a recovery in global economic activity was under way, whilst encouraging corporate earnings results added to the optimism. Towards the end of the month, risk aversion climbed sharply given nervousness surrounding the threat of a possible contagion from the Dubai debt crisis to other markets. The news served as a stark reminder of the fragility of the current economic environment. Subsequent support from the UAE Central Bank and a substantially lower revised amount of debt involved, helped to reduce investors' concerns towards the end of the month .

December 2009

Some caution is still recommended for 2010...

2009 has been an extremely good year for risky assets, albeit not without considerable volatility. For 2010, while growth expectations have certainly improved, there is increasing concern about the possibly excessive level of optimism in both GDP and earnings growth forecasts. Economic headwinds remain. For example, near-record unemployment (see chart) and the need to rebuild savings in countries like the US are likely to affect both consumption and corporate profitability. In addition, the threat of withdrawal of supportive government measures adds further risk to the growth outlook. As such, a moderately cautious stance on equities is still advised for investors, as global markets are likely to remain volatile in 2010.



Source: All data and charts are sourced from Datastream, Bloomberg, Barclays Capital, HSBC Global Asset Management

Preference for defensive sectors

We retain our preference for defensive sectors such as Healthcare and Telecommunications because these sectors continue to look under-valued relative to the more cyclical areas of the market. Furthermore, as mentioned in the previous newsletters, these sectors offer a relatively attractive dividend yield and generally more stable earnings profiles.

Continue to favour Latin-America equities relative to Emerging Asia

At a regional level, within Emerging Market equities, we maintain our preference for Latin America relative to Emerging Asia. This preference has proven beneficial since it was introduced at the end of July. Latin America remains at a highly attractive PE discount to emerging Asia. In addition, we believe there is potential for positive economic surprises in Brazil on the back of a recovery in domestic demand. Furthermore, Brazil in particular, as a commodity exporter is a direct beneficiary of the growth re-bounce growth in Asia, which lends further support to our view.

Maintain preference for corporate bonds

We maintain a positive stance on investment grade and high-yield credit. Given the strong performance from corporate bonds this year, valuations are now less appealing, but still attractive relative to history and to the very low levels of yield offered by government bonds. Therefore, we recommend a smaller overweight position in investment grade and high-yield credit relative to earlier in the year.

Moderately negative on the GBP versus the Euro

Within currencies, we maintain a moderately negative view on the GBP relative to the EUR as the UK's deteriorating public sector finances and higher rates of inflation are negative factors for the currency.

Markets

US

Weak Consumption And Employment Conditions Continue To Weigh On Growth Outlook

- ▶ Consumption and employment remains weak and government support is likely to be reduced in the next 6 to 12 months. Therefore, given overly optimistic expectations for both economic and corporate growth, we recommend maintaining a moderately cautious view on equities for the US and elsewhere

Japan

A Strong JPY Adds To Existing Risks, Such as Weak Domestic Demand And High Valuations

- ▶ Despite further encouraging economic readings on the whole, low consumer demand and a high unemployment rate in Japan remain a risk to growth. Moreover, a strong JPY threatens Japan's exports and there was no clear indication by the government how and when this issue will be tackled

Asia ex-Japan

Positive Newsflow Appears To Be Priced In, And Risk Of Negative Surprise Has Increased As For Other Equity Markets

- ▶ With 2010 EPS growth forecast still on the high side, the risk of disappointment outweighs the chance for positive surprises. Valuations have returned to 1H07 levels and market prices appear to have already largely reflected the positive news flow

Europe

Combination Of Weak Fundamentals And Less Appealing Valuations Add To Risk Of A Correction

- ▶ Eurozone GDP was slightly below consensus with high unemployment, easing of stimulus support and a surging EUR threatening to undermine a recovery. With valuations now at the level of the first half of 2007, the case for European equities remains less attractive with more risk of a price correction

Emerging Markets

Maintain Preference For Latin American Equities Over Emerging Asia

- ▶ Global emerging market equities rose 3.3% in November, led by the strong performance of Latin America (7.7%). We reiterate our preference for Latin-America equities over Emerging Asia as the 12-month trailing price to earnings discount to Emerging Asia remains attractive

Sukuk

Amid current economic and capital market conditions, Sovereigns and government-related entities have become the most common sukuk issuers as they face a need to launch a variety of funding programmes amid declining economic activity, fiscal deficits and lower commodity prices. This development will foster a more efficient and soundly based sukuk market. The launch of sukuk funds and various legislative measures in certain countries should also deepen the market and add transparency and efficiency.

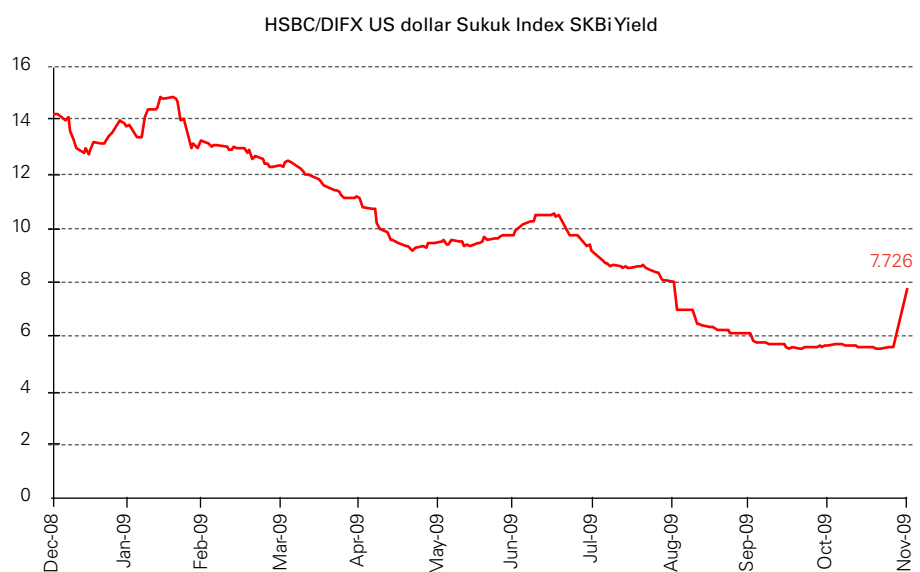
GCC

- ▶ In terms of the region's debt, debt issuances reached \$25.5bn but was dominated by sovereign issuances (\$13bn in the UAE and \$3bn in Qatar) suggesting an easing in the corporate bond market. Project financing will continue to be difficult through 2009-2010, however. The region's headline growth figure will edge higher, largely due to an expected increase in hydro-carbon production. moderate recovery is expected in 2010, yet economic growth will be uneven with modest growth in developed economies and strong growth in emerging economies (over 5%)
- ▶ The late November unravelling of Dubai's credit has come down to an estimated US\$4.3 billion of government and corporate debt due in December, and US\$4.9 billion in the first quarter of 2010. Although the sum is considered minute compared to the US\$3 trillion in global write-downs since the credit crunch, global stock markets saw heavy selling as investors panicked over the prospect of a major default. The proposed standstill on Dubai World and Nakheel obligations is a major negative shock to sentiment in Dubai, the UAE and the region more generally, where sovereign support has traditionally been strong. This will put further pressure on entities that need to refinance, at least in the short-term, until details of the Dubai World restructuring become clear. With Dubai's overall refinancing needs not expected to peak until 2011, the migration of quasi government obligations to the sovereign balance sheet is likely to continue
- ▶ The three sukuk listed on the exchange are \$3.5bn due on December 14, AED3.6bn (\$980.1m) due on May 13 and \$750m due on January 16, 2011

Asia

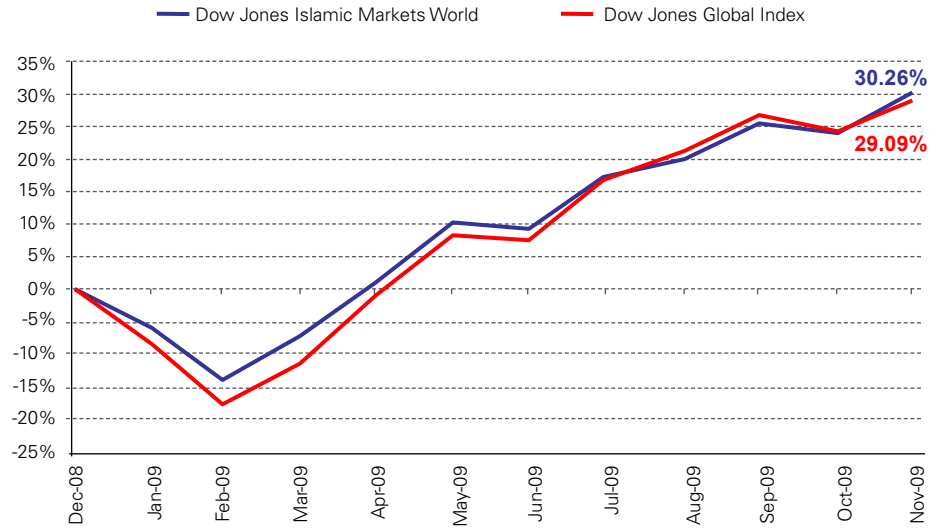
- ▶ The shock from Dubai World's restructuring and call for a standstill on its group debts sent yields on Islamic bonds issued from Asian borrowers sharply higher at the end of the month. The sukuk of the Indonesian government and Malaysia's national oil company Petronas were particularly hard hit
- ▶ Some players sold the sukuks from Indonesia and Petronas on the fear that some of these bonds may be held by Middle Eastern investors, who may opt to unload some of their holdings after the Dubai government's announcement
- ▶ The potential Dubai default is likely to negatively affect nations in Asia and the Pacific region planning to raise money by offering sukuk. Indonesia, Pakistan and South Korea are planning to sell Islamic bonds offshore in separate offerings. Jakarta plans to sell up to \$1 billion of global sukuk by the second quarter of 2010. Pakistan, the only other Asian nation to have issued offshore Islamic bonds, has just \$600 million outstanding from its 2005 sale. It is looking to raise \$500 million in Islamic bonds next year
- ▶ There is no doubt the improved economic outlook and the role of public intervention have given confidence to the financial markets and contributed to rising stock markets - especially in emerging markets - with improved economic outlets being seen in China and India
- ▶ The most active issuers of sukuk in the past year include Malaysia, the UAE, Saudi Arabia, Pakistan, Kuwait and Bahrain

As of end of November 2009, the HSBC/DIFX SKBI Sukuk Index yield stands at 7.2% compared to 5.6% as at end of October 2009

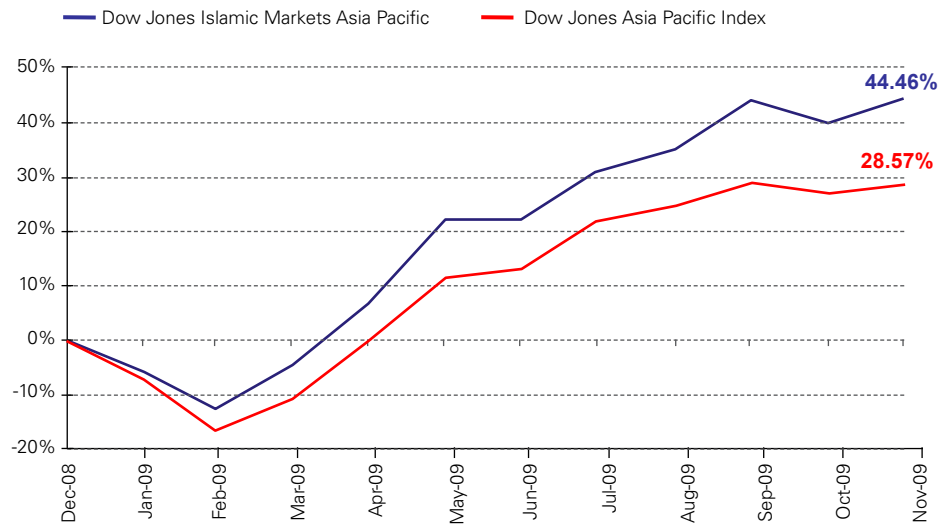


Source: HSBC/DIFX December 2009

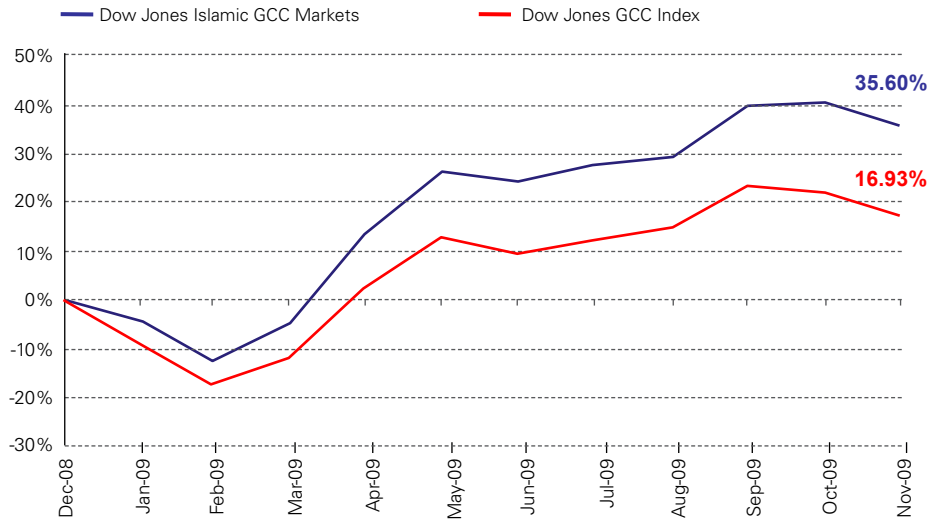
Main Indices Performance



Source: Bloomberg December 2009, USD



Source: Bloomberg December 2009, USD



Source: Bloomberg December 2009, USD

Index	Performance YTD 2009 at 31 Oct 09
Dow Jones Islamic Markets World	30.26%
Dow Jones Global Index	29.09%
Dow Jones Islamic Markets Europe	27.63%
Dow Jones European Index	31.09%
Dow Jones Islamic Markets Asia Pacific	44.46%
Dow Jones Asia Pacific Index	28.57%
Dow Jones Islamic Markets Emerging Markets	69.80%
Dow Jones Emerging Markets Index	70.80%
Dow Jones Islamic Markets GCC	35.60%
Dow Jones GCC Index	16.93%

Source: Bloomberg December 2009, USD

Commodity

Oil

Target Price Range Maintained At US\$60-80 Due To Ongoing Weakness in USD Rather Than Improvement in Demand Outlook

- ▶ Supply-and-demand dynamics are slowly improving, but the low level of global economic activity is likely to continue to keep oil demand at subdued levels. However, we maintain our target range for oil of US\$60-\$80 due to ongoing weakness in the USD

Currency

US Dollar (USD)

We Adopt A Neutral Stance Given Extent Of Decline In The Currency Already

- ▶ While there are still selective negative trends for the USD, our cautious view on equities, as well as the extent to which the USD has already fallen, results in a neutral view for investment positions

Sterling (GBP)

Maintain preference For The EUR Due To The UK's Worsening Public Sector Finances

- ▶ Positive factors for the GBP are scarce other than the short-term positive impact from the repatriation of overseas profits of UK companies in December. Against other major currencies, our recommendation is to be long EUR against the GBP and neutral otherwise

Euro (EUR)

Currency Likely To Continue To Benefit As A Result Of Negative Factors Surrounding The GBP

- ▶ The potential withdrawal of non standard policy measures by the European Central Bank (ECB) implies economic normalisation is underway. And with negative factors for the GBP such as deterioration of UK public sector finances, the EUR is likely to continue to benefit against this currency

Japanese Yen (JPY)

Retain Neutral Position As Impact Of Long Term Negative Factors Remain Muted For Now

- ▶ Structural factors such as growth remain unsupportive for the currency. However, with US interest rates now expected to be low for some time, practical measures to counter the recent JPY strength look limited. Some smoothing of the rate of appreciation through intervention is possible but a sustained programme is unlikely at a time when other developed economies are also looking to prevent currency appreciation. On balance we therefore maintain our neutral view

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