

Global stock markets rallied on Fed's pledge to be "patient" with raising interest rates

Key Takeaways

- ▶ US stocks extended a rally for a second day on Fed reassurance; tech stocks led gains
- ▶ European stocks rebounded strongly following upbeat FOMC statement
- ▶ Most Asian stocks gained after the Fed changed its forward guidance
- ▶ US Treasury yields rose as stocks rallied and expectations for a mid-2015 rate hike increased

Equity Markets

US stocks extended a rally for a second day on Fed reassurance; tech stocks led gains

- ▶ US stocks rallied for a second day on Thursday, as global stocks rebounded strongly on the Fed's reassurance that it remains patient on raising interest rates. The S&P 500 jumped 2.4% to 2,061, led by a 3% rally in technology shares with all sectors on the benchmark posting gains. The Dow Jones Industrial Average rose sharply by 2.4% to 17,778.

European stocks rebounded strongly following upbeat FOMC statement

- ▶ European stocks rebounded on Thursday as the outcome of the latest FOMC monetary policy meeting indicated the Fed would be "patient" in assessing when to begin raising interest rates. In the press conference that followed the meeting, Fed Chair Janet Yellen stated that being "patient" means the Fed would be unlikely to raise rates before April 2015. A rally in oil prices during European trading hours, in addition to the stabilisation of the rouble as the Russian government and central bank announced measures to defend the currency, supported risk appetite. Overall, the Euro STOXX 50 index closed up 3.3%. All major national indices closed in positive territory: France's CAC 40 (3.3%), Germany's DAX (2.8%), UK's FTSE 100 (2.0%), Spain's IBEX (3.4%) and Italy's FTSE MIB (2.7%).

Most Asian stocks gained after the Fed changed its forward guidance

- ▶ Most Asian stocks gained on Thursday, erasing Wednesday's losses, after the Fed made a change to its interest-rate forward guidance language. This change was consistent with a first rate hike coming late in the first half of next year. FOMC participants revised down their inflation forecasts for 2014 and 2015 and their interest rates forecasts for 2015 and 2016. The confidence of US policy makers in the outlook for the economy and the initial depreciation of the yen against the USD boosted Japanese stocks, with the Nikkei up 2.3%, led by companies largely exposed to foreign markets. Korea was one of the rare markets that retreated, with the Kospi down 0.1%, whilst Taiwan's Taix ended up 0.6%, Singapore's Straits Times was up 0.5% and India's Sensex was up 1.6%, led by consumer durables and real estate stocks.
- ▶ Chinese stocks edged down, snapping a four-day winning streak, on profit taking in banks and financial services stocks after these two sectors gained around 6% on Wednesday. However, construction and engineering stocks rose strongly (+3.7%), after data on property prices for November showed signs of stabilisation following the government's easing of restrictions on the property market. The Shanghai Composite index ended down 0.1% and Hong Kong's Hang Seng finished the day up 0.8%.

Russian stocks rallied and Brazilian stocks fell

- ▶ Russian stocks rallied on Thursday, as oil prices rose intraday and amid growing confidence that policymakers would succeed in stabilising the rouble. President Vladimir Putin assured during his annual news conference that the Russian economy would rebound in, at the most, two years, and that the government is taking adequate measures to aid the economy. Putin also said the rouble would eventually stabilise and that Russia has enough FX reserves. The Micex index jumped 4.5% to 1,477.
- ▶ Brazilian stocks fell as crude oil prices slid on concern about worsening oversupply situation. The Ibovespa index close down 0.4% at 48,496.

Bond Markets

Core European bond yields rose; peripheral bonds outperformed

- ▶ Core European bond yields closed higher yesterday, after falling in the earlier trading session as the Federal Reserve said it would now take a 'patient' approach in hiking interest rates. German 10-year bond yields added 3bp to 0.62%, coming off earlier lows after German business morale rose in December, another sign that the bloc's largest economy could pick up in the fourth quarter. But this positive data did little to dampen expectations of further stimulus from the ECB next year. Benoit Coeure - one of the central bank's top policymakers said late on Wednesday that the ECB was discussing how best to act to revive the eurozone rather than whether to do so, and that sovereign bond purchases were the "baseline option". Peripheral bonds outperformed with Spanish 10-year bond yields falling 3bp to 1.74%. Even Greek yields dipped 15bp to 8.61%, despite the country's failure to elect a president at a first attempt by parliament. If the government fails to achieve a majority in none of the three voting rounds, snap elections will likely be called

US Treasury yields rose as stocks rallied and expectations for a mid-2015 rate hike increased

- ▶ US Treasuries fell (yields rose) on Thursday, as investors continued to interpret Fed Chair Janet Yellen's comment at the press conference that a rate increase would not take place for at least the next couple of meetings as suggesting an interest rate hike by the middle of next year. The rally in risk assets also exerted pressures on the safe-haven US Treasuries. The 5-year, 10-year and 30-year yields rose 5bp, 3bp and 9bp to 1.66%, 2.21% and 2.82%, respectively.

Commodity Markets

Oil prices resumed the decline on continued oversupply concern

- ▶ Crude oil prices dropped to the lowest levels in more than five years on Thursday, following a rebound in the previous session, on continued concern about oversupply. WTI for January delivery dropped USD2.36 to USD54.1 a barrel. Brent for February settlement declined USD1.91 to USD59.3 a barrel.
- ▶ Gold prices rebounded amid signs of rising physical demand for the metal. Spot gold prices added 0.8% to USD1,199 an ounce.

Economic Data and Events

Releases due today (19 December 2014)

Country	Indicator	Date as of	Survey	Prior
Japan	BoJ monetary policy decision	Dec	-	-

Key Data Releases and Events

Yesterday

- ▶ The **German IFO business climate** brightened further in December. The headline index rose from 104.7 to 105.5. This second consecutive improvement reflected better expectations for the German economy (up to 101.1 from 99.7) while the assessment of the current situation remained at 110.0

Today

- ▶ The **Bank of Japan** is expected to keep monetary policy unchanged at its meeting today. At its last meeting, the Bank of Japan policy board voted 8-1 in favour of maintaining the size and composition of its asset purchase programme. Given the recent pick-up in shipments abroad, the central bank may raise its assessment of exports, from 'exports have been more or less flat', while maintaining its assessment that the overall economy 'has continued to recover moderately as a trend'. The focus at the post-MPM press conference is expect to remain on Governor Kuroda's stance on the weaker yen.

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Market Snapshot

	Close	1-day Change (%)	1-month Change (%)	3-month Change (%)	1-year Change (%)	YTD Change (%)	52-week High	52-week Low	Fwd P/E (X)
Equity Indices									
World									
MSCI AC World Index (USD)	415	2.0	-1.7	-3.1	4.5	1.7	434	383	15.8
North America									
US Dow Jones Industrial Average	17,778	2.4	0.5	3.0	10.0	7.2	17,991	15,341	15.7
US S&P 500 Index	2,061	2.4	0.5	2.5	13.8	11.5	2,079	1,738	17.2
US NASDAQ Composite Index	4,748	2.2	1.0	3.4	16.7	13.7	4,811	3,946	23.7
Canada S&P/TSX Composite Index	14,347	0.9	-4.2	-7.2	7.6	5.3	15,685	13,180	15.5
Europe									
MSCI AC Europe (USD)	438	2.0	-2.7	-8.3	-5.2	-9.2	507	411	14.5
Euro Stoxx 50 Index	3,154	3.3	1.1	-3.6	6.0	1.4	3,326	2,790	14.5
UK FTSE 100 Index	6,466	2.0	-3.6	-5.2	-0.4	-4.2	6,905	6,073	13.8
Germany DAX Index*	9,811	2.8	3.7	0.1	6.9	2.7	10,093	8,355	13.8
France CAC-40 Index	4,249	3.3	-0.3	-4.8	3.4	-1.1	4,599	3,789	14.8
Spain IBEX 35 Index	10,391	3.4	-0.4	-5.5	10.0	4.8	11,249	9,348	17.1
Asia Pacific									
MSCI AC Asia Pacific ex Japan (USD)	453	0.9	-4.8	-8.0	-1.1	-3.2	516	434	12.9
Japan Nikkei-225 Stock Average	17,210	2.3	-0.8	7.1	10.4	5.6	18,031	13,885	18.8
Australian Stock Exchange 200	5,211	0.9	-3.5	-3.8	2.3	-2.6	5,680	5,052	14.8
Hong Kong Hang Seng Index	22,832	1.1	-3.0	-5.5	-1.3	-2.0	25,363	21,138	10.8
Shanghai Stock Exchange Composite	3,058	-0.1	24.5	32.0	42.3	44.5	3,091	1,974	12.8
Hang Seng China Enterprises Index	11,331	0.5	8.7	4.9	3.4	4.8	11,950	9,160	7.9
Taiwan TAIEX Index	8,879	0.6	0.2	-3.9	6.3	3.1	9,594	8,230	13.8
Korea KOSPI Index	1,898	-0.1	-3.5	-7.3	-3.9	-5.7	2,093	1,882	13.0
India SENSEX 30 Index	27,127	1.6	-3.7	0.1	30.0	28.1	28,822	19,963	17.3
Indonesia Jakarta Stock Price Index	5,113	1.5	0.2	-1.8	21.9	19.6	5,263	4,154	17.2
Malaysia Kuala Lumpur Composite Index	1,700	1.1	-6.5	-7.9	-8.0	-8.9	1,896	1,672	16.0
Philippines Stock Exchange PSE Index	7,029	0.9	-3.4	-3.5	17.9	19.3	7,414	5,835	20.1
Singapore FTSE Straits Times Index	3,244	0.5	-2.1	-1.6	5.9	2.4	3,388	2,953	14.1
Thailand SET Index	1,517	2.5	-4.1	-4.3	12.4	16.8	1,604	1,205	16.2
Latam									
Argentina Merval Index	7,889	-1.1	-19.5	-31.6	45.8	46.3	12,599	5,245	9.1
Brazil Bovespa Index*	48,496	-0.4	-6.8	-16.9	-4.1	-5.8	62,305	44,905	11.3
Chile IPSA Index	3,809	0.8	-3.2	-5.5	3.9	3.0	4,120	3,370	17.6
Colombia IGBC Index	11,025	0.9	-14.2	-22.6	-15.1	-15.7	14,767	10,199	12.7
Mexico Index	42,476	3.6	-2.3	-8.0	0.9	-0.6	46,554	37,752	19.1
EEMEA									
Russia MICEX Index	1,477	4.5	-2.8	2.0	-0.6	-1.8	1,623	1,183	4.6
South Africa JSE Index	49,291	4.2	-2.1	-4.4	12.2	6.6	52,324	43,669	15.5
Turkey ISE 100 Index*	83,226	3.0	2.3	7.4	16.5	22.7	87,048	60,754	11.4

	3-month Change (%)	YTD Change (%)	1-year Change (%)	3-year Change (%)	5-year Change (%)
Equity Indices - Total Return					
Global equities	-2.8	3.7	6.6	52.3	58.1
US equities	2.6	12.7	15.2	76.8	101.7
Europe equities	-8.0	-6.8	-2.6	43.1	31.5
Asia Pacific ex Japan equities	-7.7	-0.4	1.7	27.2	31.6
Japan equities	-3.5	-5.4	-3.2	32.5	28.0
Latam equities	-21.9	-14.3	-13.2	-18.3	-22.4
Emerging Markets equities	-11.3	-4.5	-3.5	11.5	11.1

Source: Bloomberg, HSBC Global Asset Management. Data as of previous trading day's respective market close, except for BarCap GlobalAgg, BarCap US Corporate Index and BarCap Global High Yield which are as of previous two trading days' market close.

Market Snapshot 2

Bond indices - Total Return	Close	1-day Change (Index Pts.)	1-month Change (%)	3-month Change (%)	1-year Change (%)	YTD Change (%)
BarCap GlobalAgg (Hedged in USD)	474	-0.4	1.0	2.4	6.9	7.2
JPM EMBI Global	654	7.4	-3.0	-3.1	4.2	4.2
BarCap US Corporate Index (USD)	2,575	-8.2	0.6	1.6	6.8	6.9
BarCap Euro Corporate Index (Eur)	231	0.0	0.4	1.5	8.0	8.0
BarCap Global High Yield (USD)	369	1.9	-3.6	-4.4	0.9	0.5
JPM Asian Investment grade (USD)	169	0.1	0.1	1.9	8.4	8.7
HSBC Asian Bond Index	372	0.0	0.1	1.7	8.6	8.7

Bonds	Close	1-day Ago	1-month Ago	3-months Ago	1-year Ago	Year End 2013
US Treasury yields (%)						
3-month	0.04	0.02	0.01	0.01	0.06	0.07
2-Year	0.63	0.62	0.50	0.56	0.33	0.38
5-Year	1.66	1.61	1.61	1.83	1.54	1.74
10-Year	2.21	2.14	2.32	2.61	2.89	3.03
30-Year	2.82	2.73	3.04	3.35	3.91	3.97

Developed market 10-year bond yields (%)						
Japan	0.36	0.36	0.51	0.56	0.66	0.74
UK	1.87	1.77	2.12	2.57	2.92	3.02
Germany	0.62	0.59	0.80	1.08	1.85	1.93
France	0.89	0.87	1.15	1.44	2.45	2.55
Italy	1.96	1.96	2.32	2.44	4.07	4.08
Spain	1.74	1.77	2.12	2.27	4.14	4.13

Commodities	Latest	1-day ago	1-month Change (%)	3-month Change (%)	1-year Change (%)	YTD Change (%)	52-week High	52-week Low
Gold	1,199	1,190	0.1	-2.2	-1.6	-0.6	1,392	1,131
Brent Oil	59.3	61.2	-24.5	-39.3	-45.9	-46.5	116	59
WTI Crude Oil	54.1	56.5	-27.5	-41.9	-44.7	-45.0	108	54
R/J CRB Futures Index	238	240	-10.5	-15.3	-15.1	-15.1	313	237
LME Copper	6,315	6,368	-4.8	-7.7	-13.1	-14.2	7,460	6,231

Source: Bloomberg, HSBC Global Asset Management. Data as of previous trading day's respective market close, except for BarCap GlobalAgg, BarCap US Corporate Index and BarCap Global High Yield which are as of previous two trading days' market close.

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