HSBC PREMIER

Currency

US Dollar Neutral view maintained

Euro Currency fairly valued, shows no clear direction

Sterling Negative view maintained

Japanese Yen Fair value and weak macroeconomic outlook

Canadian Dollar Stronger gold and oil prices should help the loonie

Equity

US Risks to earnings revisions remain to the downside

Europe Greater level of pessimism being priced into market

Japan Uneasy combination of low growth, expensive valuations and rising risks

Asia ex-Japan Attractive valuations, but growth concerns remain elevated

Emerging Markets Earnings yield gap with US narrowing

Canada Valuations remain attractive, but volatility still likely

Interest rate/Fixed income

US Low yields make Treasury valuations unattractive

Eurozone Low yields make asset class expensive

Canada Corporate bond spreads still attractive

Emerging Markets Appealing valuations, but fundamentals deteriorating

Investment Grade Particularly attractive valuations

High Yield Current spreads adequately compensate for bleak outlook

Global Investment Perspective

March 2009

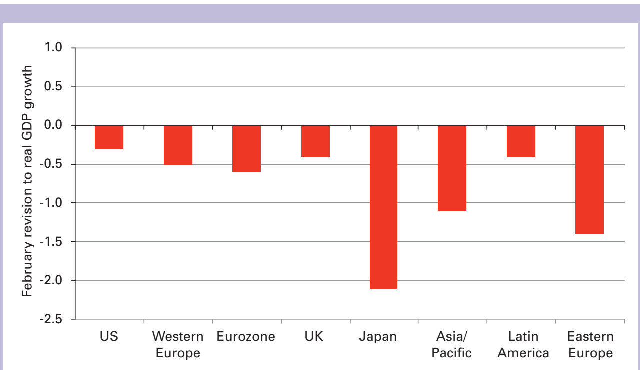
Global equity markets declined in February as economic output contracted further and employment conditions worsened. The major developed markets fell by 10.2%, as measured by the Morgan Stanley Capital International (MSCI) World Index. Emerging markets continued to fare better with the MSCI Emerging Markets Index declining 5.6%. Among emerging markets, Eastern European equities fell by over 5.4% as a string of weak economic data darkened the short-term outlook — leading markets to revise growth expectations down for the region.

Industrial production continued to weaken at record rates worldwide, in line with the sharp drop in global demand. In Japan, industrial production tumbled by 10% month-on-month in January after plunging by a previous record of 9.8% in December. In the UK, industrial production fell 1.7% in December, marking the fourteenth straight month of decline, while output in the US declined 1.8% in January following a drop of 2.4% in December.

Production declines were reflected in worsening employment conditions as companies cut costs to offset significant declines in revenue. In the US, 651,000 more jobs were shed in February. The situation is similar in Europe, with unemployment in Spain reaching 14% and the jobless rate in the UK continuing to climb steadily from 6.1% in November to 6.3% in December. In Canada, unemployment rose 0.6 percentage points in January to 7.2%. This drop in employment exceeds any monthly decline during the previous economic downturns of the 1980s and 1990s.

Given declining output, consensus 2009 GDP growth forecasts continued to be revised down globally. In the US, the growth forecast was cut by 0.3% to -2.1%. Growth projections for the eurozone were lowered by 0.6% to -2.0%, and by 0.4% to -2.6% for the UK. However, the downward revision to growth was the most severe for Japan as it was slashed by a hefty 2.1% to -3.8% (see chart).

February revisions to 2009 consensus growth forecasts



Sources: HSBC Global Asset Management, Thomson Datastream, Bloomberg and Barclays (February 2009)

The risk to earnings remains to the downside. Contracting economic growth is creating an increasingly difficult environment for corporate profits as shown by some recent corporate results. AIG, for example, reported a $61.7 billion loss in the fourth quarter of 2008. Although equity valuations have fallen to attractive levels for long-term investors, the weak outlook for 2009 and the potential for more bad news reinforces a cautious view. We expect equities to remain volatile until uncertainties clear, and hence maintain our bias for cash over equities.

For bonds, we favour investment-grade and high-yield corporate debt over US and European government bonds. The corporate debt sector has priced in an excessive level of default risk, which has made valuations attractive. While the earnings environment remains weak, the sector is likely to benefit from government action and low interest rates. Within currencies, we remain negative on the British pound because of ongoing economic concerns and the recent quantitative easing measures taken by the Bank of England. Quantitative easing involves increasing the money supply.

Currency

US Dollar

Neutral view maintained

- The US dollar continued to rally against most major currencies in February. It gained 1.5% against the pound, 8.4% against the yen, 1% against the euro and 3.7% against the Canadian dollar.
- The strength was attributable to ongoing US economic and financial reforms, while at the same time signs of a worsening economic outlook hit Japan and Europe.
- Interest rates continue to converge towards zero in the major economies, making interest rate differentials less indicative of currency movements.
- The US data flow remains negative overall and still fails to show any signs of improvement in the economic outlook.
- With similar interest rates and comparable macroeconomic pictures, global currency markets will remain volatile with no clear, sustainable direction.

Euro

Currency fairly valued, shows no clear direction

- The euro gained 6.8% and 0.3% against the yen and pound respectively in February, but lost 1% relative to the US dollar.
- This was largely attributable to particularly weak economic newsflow from Japan and the UK, as well as the euro being a higher-yielding currency.
- Based on purchasing power parity, the euro appears to be trading at fair value.
- Risk and financial stability remain the key drivers, particularly as the eurozone is under stress given the turmoil in a few Eastern European economies.
- Sentiment and newsflow will keep volatility in currency markets elevated, making any active currency position potentially risky.

Sterling

Negative view maintained

- The pound fell by 1.6% and 0.3% against the dollar and the euro in February but gained 6.3% versus the yen as the Japanese economy weakened further.
- The UK economy continued to deteriorate in February, reflected in declining fourth quarter GDP and lower house prices, which fell by 17.2% year-on-year to a record low.
- The Bank of England has opted to begin quantitative easing, as scope for further rate cuts is now limited.
- Expanding the money supply to purchase government and other securities, under a policy of quantitative easing, could erode the pound's value.
- Given the bleak economic outlook and further stress stemming from the now official move to quantitative easing, we maintain our negative view on the pound.

Japanese Yen

Fair value and weak macroeconomic outlook

- The yen depreciated dramatically against all major currencies during February. It lost 8.4%, 6.3% and 6.8% against the dollar, pound and euro, respectively.
- The sharp decline was attributable to extremely poor data as fourth quarter 2008 GDP shrank, industrial production weakened and vehicle output fell by a hefty 41% year-on-year during January.
- Now that rates are near zero in the US, the carry trade will be less of a factor in determining fluctuations in the dollar-yen exchange rate. (The carry trade involves borrowing in low-interest yen and investing in higher-interest US Treasuries.)
- However, the weak macroeconomic picture in both the US and Japan suggests that the risks are balanced.
- We maintain our neutral view on the currency over a 6- to 12-month period.

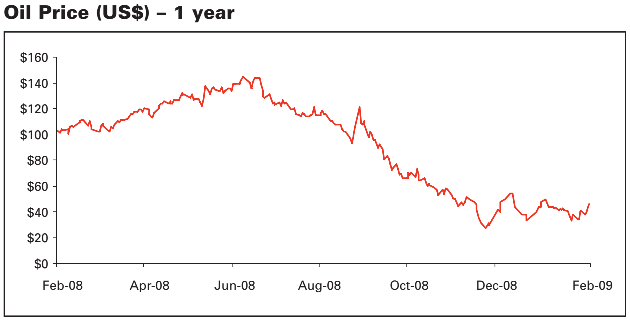
Canadian Dollar

Stronger gold and oil prices should help the loonie

- The loonie hit a high of US$0.82 on February 9, with gains in gold and more consistent oil prices providing support.
- However, the loonie finished the month at US$0.79 on the back of high trade deficit figures and a general flight-to-safety to US dollars.
- If commodity prices remain relatively stable, the loonie could maintain its value at current levels.
- On a long-term fundamental basis, the loonie is mostly undervalued versus the US dollar.

Commodity

Oil Price (US$) – 1 year



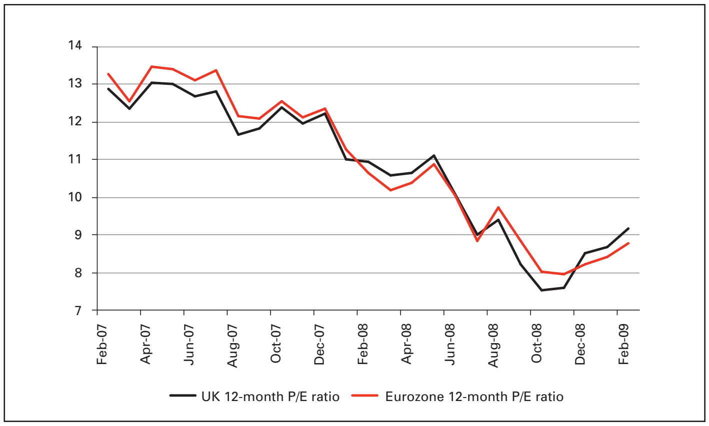
Sources: HSBC Global Asset Management, Thomson Datastream, Bloomberg and Barclays (February 2009)

Oil

Cutbacks in output by OPEC should support prices in the US$40-$60 range

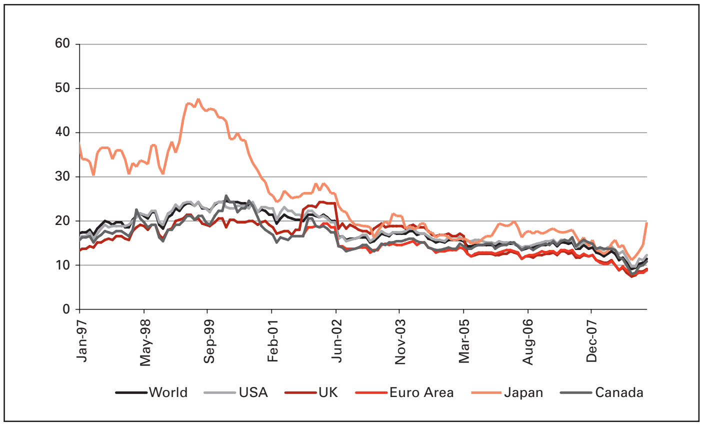
- Oil prices rose 7.4% over the month, to US$44.8, on evidence that OPEC is curbing supply.
- Also, lower fuel prices led to increased demand and a drop in US gasoline inventories.
- Production cutbacks should help keep oil prices higher — around the US$40-$60 range over the next 12 months.
- OPEC reduced output by almost 4% during February, and the group indicated that it may cut production further when it meets next on March 15.

Market



Forward price-to-earnings ratio increased as earnings expectations revised downwards

Sources: HSBC Global Asset Management, Thomson Datastream, Bloomberg and Barclays (February 2009)



Price-to-earnings ratio based on 12-month forward earnings – developed markets

Sources: HSBC Global Asset Management, Thomson Datastream, Bloomberg and Barclays (February 2009)

US

Risks to earnings revisions remain to the downside

- The Standard & Poor's 500 Index fell 10.7% in February as economic and employment conditions deteriorated further, while the bank rescue plan was criticized for lacking detail.
- With the broad-based decline in 2009 earnings forecasts, from -2% to -11%, the forward price-to-earnings ratio for the S&P 500 remained at just over 12 times.
- As economic growth concerns extend to 2010, and recent newsflow and corporate results remain negative, the risks to earnings remain to the downside.
- Combined with the inherent risks within the economy, we maintain our moderate underweight of US equities versus cash.
- US equities are likely to perform in line with global peers as valuations are broadly comparable to other major markets.

Europe

Greater level of pessimism being priced into market

- The Financial Times Stock Exchange 100 Index and Dow Jones Euro Stoxx 50 Index fell by 7.0% and 11.4% respectively during February, as economic data worsened and concerns over banks deepened.
- Over the past several months, the 12-month forward price-to-earnings ratio has increased, suggesting that a greater level of pessimism is being priced in.
- Economic conditions continue to deteriorate, and investors are concerned that banks could be slow in receiving the assistance they need to stabilize.
- Also, sentiment remains weak and house prices continue to decline while the risk of a further credit squeeze could exert additional downward pressure on equities.
- As a result, we reinforce our defensive message of favouring cash for the short term and we expect European equities to perform in line with peers.

Japan

Uneasy combination of low growth, expensive valuations and rising risks

- Japanese equities fell 4.7%, as measured by the Tokyo Stock Price Index in February, as exports worsened and the consensus gross domestic product (GDP) forecast of -3.8% is significantly worse than for other developed markets.
- As earnings projections have been revised down sharply, the forward price-to-earnings ratio has increased from 15 times to 20 times.
- Economic conditions continue to deteriorate, and earnings are further at risk in the face of rising bankruptcies.
- The forward price-to-earnings ratio of 20 is high.
- In the current environment of low growth, comparably high valuations and limited monetary flexibility by the Bank of Japan, we see limited tactical opportunities in Japan and retain a neutral position on Japan versus equities in other regions.

Asia ex-Japan

Attractive valuations, but growth concerns remain elevated

- Asia ex-Japan equities fell 3.2% in February as the region's exports continued to decline and growth concerns remained elevated.
- From a valuation standpoint, markets are trading at relatively low levels versus historical norms. Hong Kong, India and China have price-to-earnings ratios of 12, 10 and 10, respectively.
- In addition, based on consensus GDP growth forecasts, Asia ex-Japan should experience higher growth rates than other emerging market and developed economies.
- However, weakening exports indicate further uncertainty over the region's future and whether the forecasted level of GDP growth for 2009 will be achievable.
- As such, we maintain our underweight position relative to cash and expect Asia ex-Japan equities to perform in line with peers.

Emerging Markets

Earnings yield gap with US narrowing

- While rising risk aversion saw emerging market equities fall 5.6% in February, but they outperformed most developed markets.
- Performance among emerging markets was uneven based on country-specific issues and credit-rating downgrades. For example, Argentina was down 11.2% but Brazil was only 0.7% lower.
- Fundamentals deteriorated further, particularly in Eastern European countries where there was growing concern over economic growth and debt levels.
- The price multiples of emerging markets are attractive, but growth risks have increased with economic slowdown concerns, credit issues and stagnating foreign investment.
- With the price multiple rising more in developed markets, the earnings yield gap between emerging markets and the US has fallen slightly, although it remains similar to historical norms.

Canada

Valuations remain attractive, but volatility still likely

- Canadian corporate earnings forecasts fell again in February. This is part of a continuing global trend to more realistic and sustainable equity valuations.
- The benchmark Standard & Poor's/Toronto Stock Exchange Composite Index fell 6.2% in February (in Canadian dollar terms).
- The financial sector was one of the worst hit. This underperformance was surprising, given that the major banks reported earnings above consensus expectations.
- The materials sector started to show signs of life — gold continued to outperform mainly in light of its traditional role as a hedge against uncertain economic conditions. Energy stocks also slightly outperformed the index.
- We maintain our cautious view of Canadian equities and expect continued volatility in coming quarters. We expect Canadian equities to perform roughly in line with global markets. However, we continue to see a small degree of optimism being reflected in our forecasts.

Interest rate/Fixed income

US

Low yields make Treasury valuations unattractive

- US Treasuries declined further, with the 10-year bond yield increasing by 0.2% despite deteriorating economic conditions. (Yields move in the opposite direction of prices.)
- With interest rates close to zero, the Fed may, as an alternative measure to stimulate the economy, buy Treasuries as part of a quantitative easing policy. This would reduce yields on Treasuries.
- But despite the safe-haven status of government securities, the very low level of yields means that Treasury valuations remain unattractive.
- As issuance continues to increase to fund government stimulus spending, this additional supply could place upward pressure on yields.
- We maintain our negative view on the asset class.

Eurozone

Low yields make asset class expensive

- With economic data pointing towards a negative growth outlook, eurozone bond yields fell across the maturity spectrum.
- We believe that fears of countries defaulting on their debt, because of problems in the banking sector, appear overdone.
- Ongoing economic weakness is already reflected by the market's expectation of further rate cuts from the European Central Bank, with yields expected to continue to converge towards levels similar to US Treasuries.
- With yields at such low levels, from a valuation perspective, eurozone bonds remain unattractive.
- We retain our negative view on this asset class.

Canada

Corporate bond spreads still attractive

- Canadian corporate bonds delivered a 1.6% gain in February (in Canadian dollar terms). Yield spreads over Canadian government bonds remain near all-time highs. There are attractive opportunities in a select group of corporate bonds.
- Provincial bonds underperformed as news of growing provincial budget deficits unsettled markets. On March 3, Ontario announced a deficit of close to C$18 billion in 2009 and 2010.
- On March 3, as expected, the Bank of Canada cut rates by 50 basis points, bringing the overnight rate to 0.5%.
- Continuing risk aversion makes it unlikely that government bond yields will increase in the short term. We maintain our neutral stance on Canadian debt.

Emerging Markets

Appealing valuations, but fundamentals deteriorating

- The Merrill Lynch US Dollar Emerging Markets Sovereign Debt Index lost almost 1% in February.
- Valuations remain attractive with yield spreads more than 3.3% above their five-year average. But relative to global high yield and global corporate debt, emerging market sovereign debt is less attractive, given respective spread levels and credit ratings.
- The macroeconomic picture has not shown any signs of improvement and additional risk comes from deteriorating fundamentals in a few Eastern European countries — Russian, Latvian and Ukrainian credit ratings were downgraded in February.
- Central banks are in an easing cycle, adding pressure on some currencies and foreign debt burdens.
- We retain our negative stance on the asset class.

Investment Grade

Particularly attractive valuations

- Following strong performance at the start of the year, the yields on investment-grade debt widened over government debt towards the end of the month. Investment-grade debt posted moderate losses.
- While fundamentals are deteriorating in response to the severe economic downturn, spreads are more than compensating for this outlook.
- Investment-grade credit is particularly well placed to benefit from government attempts to kick-start lending and improve the liquidity of the financial system.
- Technical factors have continued to improve and rising debt issuance across the globe is being well received by investors.
- We maintain our positive stance on investment-grade credit.

High Yield

Current spreads adequately compensate for bleak outlook

- Rising risk aversion and downward revisions in earnings expectations led to declines in high-yield bond prices, with the Merrill Lynch Global High Yield Index losing 3.4% in February.
- While the economic backdrop has deteriorated, current spreads are more than compensating for this outlook.
- Defaults will certainly increase, but we believe that these will not reach the extreme proportions currently implied in yield spreads.
- Valuations remain very attractive, even if lower economic recovery rates are factored in.
- We maintain our positive stance on the asset class, but continue to stress the potential liquidity risks and high volatility.

Unless otherwise indicated, all returns are expressed in US dollars.

1500465-E CA#M0900036

Canada
1-866-233-3838
www.hsbc.ca/premier

US
1-888-662-HSBC (4722)
www.HSBCPREMIERUSA.com

Bermuda
(441) 299-5900
www.bankofbermuda.com

HSBC PREMIER