HSBC

Video Transcript

HSBC Investment Outlook – Q1 2024 (Issued 23 November 2023)
Willem Sels

As we look into 2024, the investment environment remains complex. But amid the uncertainty, we go back to fundamentals to form some clear views and discover opportunities. First, valuations are quite a bit lower than they were just a few months ago for high quality bonds and equity markets. And that's a good starting point from a medium to long-term perspective.

What's more, we think that the Fed and other central banks are done with their rate hikes, which should remove that headwind and even allow valuations to improve ahead of the rate cuts later in 2024. Secondly, economic growth should slow, but the US remains resilient, which is key for markets. The labour market remains strong and falling inflation leaves consumers with more money to spend. And in fact, people have been underestimating US growth for almost two years now, largely because of that resilient consumption.

But there is more. The Inflation Reduction Act and the Chips and Science Act have caused a jump in manufacturing investment. That's linked to the re-onshoring because companies and governments want to de-risk and be more self-sufficient in our multipolar world. To keep the cost of local production down, we expect much more investment in robots which have become ever more productive thanks to AI. Government stimulus and AI are boosting research as well, in areas like healthcare and life sciences, and there is great demand for new drugs tackling obesity and diabetes.

Investment will also continue in the Net Zero transition after the warmest 12 months on record, which will force governments to deliver and work together on this critical mission. Now, our thematic investments tap into all of those areas. From a structural perspective, disruptive technologies widen the scope of what we can do, while tackling climate change is clearly something that we have to do. And in addition to those trends, we launch a new Evolving Society trend, which you could think of as what we want to do, and how we want to live.

And under that trend we see investment opportunities in infrastructure and future cities, increased attention to our health and social empowerment and wellbeing. We complement those trends by our Asian themes and some more cyclical themes to find a style balance and widen the opportunity set.

Asia's growth may continue to be held back by China's property sector, but we think that government stimulus will manage to stabilise GDP growth. India and ASEAN are seeing good cyclical and structural support, and we focus on opportunities in the region linked to the reshaping of the supply chain and to resilient consumer demand.

We need to recognise two types of global risks though. The two devastating wars and people's unimaginable suffering remain front of our minds.

2024 also has a number of important elections, and the US-China geopolitical headwinds will remain ahead of the November presidential elections. The second area of uncertainty is the risk of tightening of credit supply, which is already visible in bank lending surveys. The policy rate plateau should lead to some widening of credit spreads for lower quality borrowers and to rising defaults.

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But in our core case, we do not expect a credit crunch though, because many companies have locked in funding for the next few years. Large banks are well-capitalised and happy to lend, and private market lenders step in with attractive conditions where additional funding is needed.

So yes, there are some risks, but the investment environment remains favourable and our four investment priorities look for a diversified set of opportunities to take advantage of the best value and fundamentals, while also being selective and adding some strategies to manage volatility.

So what are they? First, we extend bond duration ahead of the Fed's policy easing in the third quarter of 2024. That's because when central banks do start to cut, investors often underestimate the speed of those cuts, which supports bonds but hurts returns for people with too much cash. Clearly, we focus on quality, including government bonds and investment grade credit. Secondly, we broaden our US equity exposure. I've mentioned the strong structural growth in areas such as generative AI, robotics and and new energy transportation.

For people worried about tech valuations, though, we see supports in cheaper sectors too, reflected in our North American re-industrialisation, our Healthcare Innovation themes and consumption related stocks. Thirdly, we hedge tail risks via alternatives, multi-asset and volatility strategies. A core allocation to private markets and multi-asset strategies can add diversification, while nimble hedge funds can take advantage of mispricing. And volatility strategies can generate income to stabilise portfolios' total returns.

And lastly, we diversify emerging market exposure into structural growth leaders. In India, ASEAN and Latin America we see opportunities in the consumer space and the supply chain diversification trend. There are select opportunities in Hong Kong and mainland China too, given the low valuation of growth leaders in consumer services, the internet and electric vehicles.

So, yes, we do face a complex investment environment, but with lower global market valuations and a list of supportive factors, there are plenty of opportunities to put our cash to work.

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