HSBC Private Banking

Video transcript

HSBC IO 2019 September Monthly View – Willem Sels Video

My name is Willem Sels and I'm the Global Chief Market Strategist for HSBC Private Banking.

Now in the past few weeks, markets have been volatile and equity markets have corrected, largely on concerns about the global economic cycle.

And that concern has been exacerbated by the flattening, and the inversion of the US yield curve, which sometimes is a good signal indicating a recession ahead.

But whilst we agree with the economic slowdown, we do not forecast a US recession, because sometimes that signal from the yield curve is false, and we think the flattening this time around is very much structural rather than cyclical.

And also, the US data do not support an assumption of a US economic recession because the consumer continues to be quite resilient and the consumer is much bigger in economic terms than manufacturing.

So we continue to invest for an economic slowdown but not for a recession, meaning that we have a mild risk-off approach in equities with a preference for defensives rather than cyclicals and a preference for the US relative to Europe, where the economy is much weaker.

In the bond market, we continue to benefit from the more dovish tone from central banks around the world, in developed and in emerging markets. But we note that the support for bonds is mainly there for safe havens and for highly rated bonds of good quality, with the US high yield market being a notable under-performer.

So we examine as well where the potential upside scenario would come from and we think that sustained upside will not come from monitory policy because it is a bit like pushing on a string.

We rather think that one needs to have fiscal support to create sustained upside and that's why the market is so interested in the headlines around potential higher fiscal spending out of Europe, and out of Germany in particular.

But we do not yet have enough evidence of these headlines to really jump in and take that as our assumption.

The other upside scenario of course would be one where the US and China enter into a trade agreement. Both of these scenarios would be a game changer for us: it would change the economic outlook, whilst monitory policy alone cannot do that.

So for now we continue to invest in the bond market to capture that carry benefiting from the monitory policy accommodation, whilst in the equity market we continue to adopt a more defensive tone to take into account the economic slowdown.