HSBC IO 2019 Quarterly 1 – Willem Sels video

Our 2019 outlook is called ‘Finding the right balance’ and there are several aspects to this.

The first one - probably the most important one - is to form a view about the global economy. And there’s lots of pessimists out there who are looking for either a recession in the US or in the global economy, but we are not as negative.

We think growth will slow down, but still be at a respectable 2.5% in the US and 2.8% from a global perspective.

Earnings as well are slowing down, but are still standing at 10%, which should be supportive for equity markets. And all of this is important because indeed it goes into our second element of balance, which is the trade-off between valuations and risks.

Valuations have corrected quite sharply over the last number of months, and many equity markets are trading at a 5 year low. Price / earnings ratios have corrected about 17 percent and for us, we think that if markets want to correct further, we would need to see a recession. And again that’s not our core view, and therefore we are looking for a stabilisation in equity markets in coming months.

In recent months we had an overweight of cash in our advisory model portfolio in order to help us weather the volatility in markets. But clearly with the valuations being more attractive now, and our view on the global economy being relatively constructive, we wanted to put some money to work, but not everything in equities because that would skew the risk profile of the portfolio.

Hence we have also added in investment grade and gold; two relatively lower-risk assets which help balance the high risk of the equity market.

In credit as well we have migrated from a pure US dollar high yield overweight, to being more balanced there as well, by adding cross-over and investment grade rated names, where we think actually the risk / return is more attractive. So as you can see, a balanced portfolio where we want to be neither too aggressive, nor too defensive.

When valuations are attractive, it's often quite a good idea to reach for quality or sustainability of earnings because it can help you weather some of the volatility in markets that we may still see.

From a sector perspective we are neither cyclical nor defensive, we are overweight some defensive sectors such as healthcare and utilities. But at the same time, we maintain an overweight on technology because we think there is structural growth there in spite of the volatility that we have seen recently.

From a regional perspective it is the US that remains our biggest overweight, because we find earnings prospects quite promising and the market has become more attractive in terms of valuations.

Asia has the best long term valuations and the best long terms prospects, but we do think that there is some short term volatility there still. And it is in Europe ex-UK that we have our principal underweight because it is there that we see some trouble with the earnings and we also believe that headline risk is possible.

Our high conviction thematic ideas largely remain in place because they are long term and structural in nature. So it's not because we've had some volatility in technology that the fourth industrial revolution is over. We continue to see many opportunities in that area.

In Asia we focus increasingly on quality, on sustainability of earnings and especially on the local domestic economy, where we continue to see opportunities in spite of the US-China trade tariffs.

And our final theme, our sustainable world theme is very attractive to many of our investors who have an interest in doing good, whilst at the same time trying to achieve attractive returns.

As we are going into 2019, I would like to wish all of our clients a very happy and prosperous New Year.