HSBC Private Banking

Video transcript

HSBC IO 2019 July Monthly View – Willem Sels Video

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

Since the start of the year we have taken a risk-on approach and this has served us generally relatively well. But since April, we have taken some gradual steps to reduce the cyclicality of the portfolio and also to become more selective.

Today, we are taking some further steps, which will result in the portfolio being risk-neutral, and the risk level being in line with that of the strategic asset allocation.

There are several reasons for the steps that we are taking today; the first one being that the market is incorporating the likelihood of three interest rates cuts in the US, which we think is exaggerated.

The US economy is not weak enough to need such an amount of stimulus. Yet, the US equity market has rallied quite sharply on this outlook and therefore we see this as an opportunity to take partial profit on our US equity overweight.

The second thing which we are doing today is we are looking at our strategy and want to make sure that it is resilient in case the US-China tariffs remain in place.

So in Europe, we shift out of Germany into France and Switzerland; clearly a defensive trade, and one that has historically worked relatively well when there was business confidence weakness, in particular in the emerging markets.

Within Asia, we upgrade Indonesia and India, and we shift out of Thailand and Taiwan: again a defensive trade, shifting into two large domestic economies, which should insulate us somewhat vis-à-vis this trade uncertainty. Generally, we continue to like to diversify ourselves within Asia, across a number of countries.

So it is clear that these steps reduce the risk of the overall portfolio. Our strategy remains one where we want to continue to be invested, but with a conservative implementation strategy for each of the assets classes.

So in equities we have an underweight in financials, in materials, in technology hardware, and we also focus on domestic economies. That's our conservative implementation.

In credit, we are focused on investment grade rather than high yield, and have a buy-and-hold approach of short dated maturities.

So combining our need and our willingness to remain invested, but also having this conservative implementation strategy, that leads us to a neutral risk stance. And we think that's appropriate in the current environment, following the rally that we've had, and in the midst of the global uncertainties, which are just as much political as economic and therefore sometimes quite difficult to handle for an investor.