

March Monthly View – Willem Sels Transcript

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

Since the end of last year, as you know, we have been adopting a mild risk-on stand with an overweight in equities amongst other things.

And that has worked quite well during the rally in January and February, but it's important of course to take stock after these very sharp moves that we've seen in the last few months.

And in particular, we take profit this month on gold and on US high yield, and both of which we move down to a neutral allocation.

In the case of high yield, we have been concerned about US corporate leverage and we've been waiting for an opportunity to lighten up a little bit, given that this asset class has been very volatile.

And in the case of gold, we think that gold has appreciated quite sharply on the back of these more dovish expectations from the Federal Reserve, but we think this is now in the price. And we fear that a stronger US dollar could be a headwind for gold going forward.

So, by taking profit both on a safe haven asset class and on a riskier asset class, we actually change the risk of the portfolio overall relatively little.

But it's not just the prices that have moved in the market. We've also seen quite substantial change in the market's earnings expectations, following the relatively mixed earning season in the US.

And the market is now only expecting around 6.5% earnings growth in the US versus 10% earlier this year. And the 6.5%, we think, is imminently achievable.

So therefore, we think it is no longer really appropriate to have a quality bias in the US, or to be too defensive, and we upgrade US communications and US consumer cyclical to a small overweight.

In Europe however, we maintain a more defensive approach. And in Asia - even though we have an overweight - there are some risks around Chinese growth and a lack of visibility of when and how the US and China will come to a trade agreement.

So, we continue to focus on quality and growth sectors there, on the rising wealth in China and also the beneficiaries of policy stimulus.