HSBC Private Banking

# HSBC IO 2019 May Monthly - Willem Sels video

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

It is always interesting to look at markets and to try to deduct what they are trying to tell you, but it is in particular interesting at this point in time.

At the start of the year, markets were driven higher because of the more dovish Fed but this should now be in the price. Thereafter, they were driven higher by hopes of a US-China trade agreement, and this should now be partially in the price as well.

So it's really the economic and the earnings cycles that are driving markets at this point in time. And when you look at the sector performance, with cyclicals out-performing defensives, it's clear that the market is taking an optimistic view about the economic cycle, saying that the cycle has not yet come to an end.

And we agree with that. The second quarter should be better than the first quarter in terms of US economic data. The earnings should be better than the very low expectations that analysts currently have. And we think that the technology sector as well is driving markets with some structural growth, which we think is sustainable.

So therefore we remain invested. We have an overweight in US stocks and Asian stocks, and we have a selective overweight in US investment grade and in emerging market bonds.

Now, it's interesting as well to look at a number of indicators gauging sentiment with investors, and very few of them point to any exuberance, even after the very strong rally that we've had so far this year.

The one exception may be volatility. Implied volatility is very low and a cheap hedge for those investors who are a little bit more nervous than we are.

So we make very few changes to our asset allocation. We downgrade Malaysian equities because we think they have become expensive and go into Taiwanese equities, and upgrade that to a neutral because we think that their valuations are more attractive, and the high dividends of Taiwanese stocks should help as well.

In the debt market, we follow the money so to say. The investor flows have gone out of Latin America into Asia, and in particular, we downgrade Mexican debt and go into Chinese and Indonesian bonds.

So overall, our advisory model portfolio maintains a small risk-on stance but we have a natural hedge in there, against the potential risk of a weaker than expected economic cycle, notably through the underweight on European stocks where the cycle is weaker than elsewhere in the world; the small underweight on banks, which are a cyclical sector; and also through diversification. We are always diversified but in particular when the cycle is the main concern, safe havens such as Treasuries and very high rated investment grade should do well in case the cycle were more negative than we expect it to be.