

HSBC IO 2020 Quarterly 3 – Willem Sels video

We've titled our Quarterly Investment Outlook "Reopening to a new world" and that is because we believe that clients will need to consider both the short-term reopening process but also the realities and trends in the new world post COVID.

So, in the short term we expect a U-shaped economic recovery, which means a shallow process with its ups and downs and therefore continued volatility. We also think that the recovery is going to be uneven meaning every country, every company and every household is in a different financial situation which means that we need to differentiate when we pick our stocks, our sectors and our countries. But it also probably means that the recovery will be quite gradual.

So, amid high volatility and low growth, we need to build resilient portfolios. But we also need to recognise that governments and central banks have provided extraordinary stimulus supporting markets. Therefore, we remain invested but in quality stocks, in US and Global investment grade and select emerging market hard currency bonds.

Now, when we look at the medium in the longer term, we have to recognise that COVID-19 has in fact already changed the world. And we believe that the high government debt levels are going to lead to low economic growth, low inflation and low interest rates for quite some time - of course, supportive of our global investment grade overweight. But we believe those factors also point to a preference for defensives over cyclicals. Now it's not just governments that have increased their debt levels, companies have too and default rates have risen. So, we believe that the stronger companies will come out of this even stronger, relative to their peers and we believe that it is important to differentiate. That being said at the bottom end, there are opportunities for hedge funds.

Now in a low growth and high debt environment, you wouldn't expect to see much investment spending but we think there is one exception and that is automation. Companies will want to make their supply, production and distribution chains more secure and safer for their customers as well as their employees. And there is a geo-political aspect to this as well, with countries and companies wanting to bring some production back home.

Outside of automation, in technology, we believe that the growth of the online economy will support not only the platforms but also the Cloud, the telecom companies and 5G.

And another growth area of course is going to be healthcare, probably the number one priority for a lot of governments and households. They will want to avoid in the future the pain that a pandemic like this has caused. We believe that the pandemic has also highlighted the importance of environmental, social and governance aspects and therefore we believe that investors will continue to show increasing interest in ESG and sustainability more generally.

Video transcript

So, in summary we remain invested in resilient portfolios to weather the U-shaped recovery in the short term, but we are increasingly looking at the opportunities and trends in the new world post COVID.