HSBC IO 2020 September Monthly View – Willem Sels Video

Global liquidity has boosted a broad range of asset classes and in our view the policy of the Fed and other central banks will remain supportive for investors.

So, we maintain our overweight on equities, on global investment grade, emerging market hard currency bonds and gold.

Now, some of those are more on the riskier side, whilst others are diversifiers or even safe havens. And by being diversified across all of these asset classes, this helps us to manage the volatility, which we may well see over the next few weeks.

Now, this piece is all about balancing the risks on the one hand, against the economic improvement that we are seeing.

So, to take the risks first, clearly geo-politics, the US elections, the fear of higher taxes after the elections, and - in the technology sector - the potential for profit taking after the sharp rally and the potential for more regulation, all are risks that we need to consider.

In technology in particular, we manage the high valuations of the FAANG stocks by looking for diversification into smaller names, but also even outside of the technology sector in health technology, FinTech, automation and Chinese technology stocks.

Now, we look at this as a potential for volatility in this sector, but not as a start of a correction, so we maintain an overweight on the technology sector.

Now, on the positive side we see global economic improvement and this should outweigh - for markets - many of the risks that we have talked about.

Data are volatile, but the improvement is nevertheless ongoing, especially in the US but also in Europe and in China.

When you break it down, the better news that we are seeing comes out of manufacturing rather than out of the services sector or out of consumption.

Manufacturing is seeing a pick-up in orders, low inventories, and also - on the equity side - we are seeing this improvement in momentum of the industrial sector, so we upgrade the industrial sector to an overweight.

Now, adding a cyclical sector does not mean that we are going down in terms of quality. Solid earnings, the ability to maintain margins, and strong balance sheets are very important in a period of low activity and weaker-than-normal cash flows. So, we very much continue to focus on quality stocks.

One of the most frequently asked question is around the US dollar. Clearly, the dollar has moved very quickly and very far, and now we believe it will start to consolidate.

Relative to the euro for example, we believe the market could start to fear that euro strength will hurt economic activity, lead to deflation and therefore will trigger some ECB action. That should halt euro strength and therefore lead to consolidation of the EUR/USD pair.

The other question we get is around gold prices, and of course they have moved very far as well, and started to see some more volatility. Gold should continue to be supported by liquidity in our view.

Relative to silver, we would point out that the silver/gold price ratio has moved up to multi-year highs. Therefore, from the current level, and in the current environment, we would certainly prefer gold given the potential for volatility in risk appetite.