HSBC IO 2020 Quarterly 2 – Willem Sels Video

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

In the past few weeks investors and markets have had more than their usual share of uncertainty to deal with, and we think this will continue. We will see both two-way headline risk and cyclical uncertainty as well.

Of course, part of this comes from the US elections or also from geopolitical risks, but clearly the most important driver of risk appetite will remain the Coronavirus. Investors are trying to assess how long this will stay with us, how far it will spread, what the impact will be on economic growth through the supply chain, but also they are trying to assess how much it will impact business confidence and consumer confidence, which is very difficult to do.

So, it is normal that markets will remain volatile and that investors are focused on those risks. That being said, we would like to make three more constructive points, the first one being that we still believe that in the second half of the year we will see a gradual global economic recovery after a weak first half. And why are we thinking this? Well, China has managed to stabilise the number of cases, so this could happen in the US and Europe.

Secondly, we have monetary and fiscal stimulus already in place and still being delivered. And thirdly, the consumer around the world is in a relatively healthy financial state and labour markets are relatively strong. So, once consumer risk appetite improved, consumption could pick up as well. So, a recovery in the second half - that's our first constructive point.

The second opportunity lies in those longer-term themes, that we have been talking about, which also provide longer term support to the economy and to markets. I'm thinking of the technological area, the digital consumer, 5G, but also emerging markets consumption in rising middle classes, which are themes that are less cyclical.

And the third element of support for risk appetite and opportunities is with regard to valuations. Clearly risk assets were relatively highly valued at the start of the year. They have become somewhat cheaper, more reasonably valued and in some cases even cheap. So therefore because of those three reasons we want to remain exposed but believe it's very important to manage, mitigate and hedge some of those shorter-term risks.

The good news is that it is possible to do this. We have seen during the weeks when we had equity markets corrections, that safer assets such as gold and investment grade have rallied, compensating in part that fall in equity markets. Hedge funds have fallen less than equity markets and provided a partial protection. And within the equity market, defensive sectors and quality assets have held up relatively well.

So we continue to sit on diversification strategies, on those safer assets, because usually when markets recover, it is the safer assets that have the more sustainable recovery, rather than the cheapest low quality assets.

Actually we would go one step further, and we have experienced that it is only in portfolios where those shorter term risks are mitigated and managed that investors will remain exposed to the market, and benefit from that recovery that we are seeing in the second half, from those longer term themes and those better valuations.