HSBC

Investment Monthly

Sentiment remains weak but cyclical headwinds are easing

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Key takeaways

Willem Sels
Global Chief Investment Officer,
HSBC Global Private Banking and Wealth

Lucia Ku
Global Head of Wealth Insights
HSBC Wealth and Personal Banking

- Softening US March inflation data and easing banking concerns outweigh the cyclical headwinds and reinforce our view that the Fed funds rate is likely to peak by June, with one more 0.25% rate hike to come. We prefer IG bonds with medium maturities and quality companies to mitigate downside risks to growth.
- Slowing growth and tighter financial conditions will lead to further downgrades in the US, but we believe this will change in H2. Moreover, US equities historically performed well after the Fed paused, so we remain overweight. We upgrade UK equities to neutral on bottoming economic growth, peaking rates and cheaper valuations. Asia remains our most preferred market, supported by China's strong recovery (Q1 GDP of 4.5%) and improved fundamentals in the region.
- We upgrade global and US IT to overweight due to increased potential for structural growth in technology (e.g. automation and AI development), as well as industrials in Asia amid a better cyclical outlook. We downgrade global energy to neutral due to limited upside, as well as downgrading global and US real estate given tightening credit lending and less likelihood of quick rate cuts. Our overall sector allocation is mixed with a milder cyclical tilt.

Asset class	6-month view	Comment
Global equities	▶	The cyclical outlook has improved but earnings are mixed with western economies slowing down. We focus on companies, sectors and regions where earnings are resilient and prefer Asia over developed markets.
Government bonds	▼	As rate expectations have fallen too much, we see better opportunities in investment grade bonds.
Investment grade (IG) corporate bonds	▲	As we expect policy rates to peak soon, we maintain a medium duration (5-7 years) to balance yield levels against volatility.
High yield (HY) corporate bonds	▶	As spreads should remain volatile amid higher for longer rates, and high yield is sensitive to growth slowdown, we remain neutral.
Gold	▶	Gold benefits from USD weakness and central bank buying but real yields are a challenge and mining output is rising.

▲ "Overweight" implies a positive tilt towards the asset class, within the context of a well-diversified, typically multi-asset portfolio.
▼ "Underweight" implies a negative tilt towards the asset class, within the context of a well-diversified, typically multi-asset portfolio.
▶ "Neutral" implies neither a particularly negative nor a positive tilt towards the asset class, within the context of a well-diversified, typically multi-asset portfolio.
Icons: ↑ View on this asset class has been upgraded; ↓ View on this asset class has been downgraded.

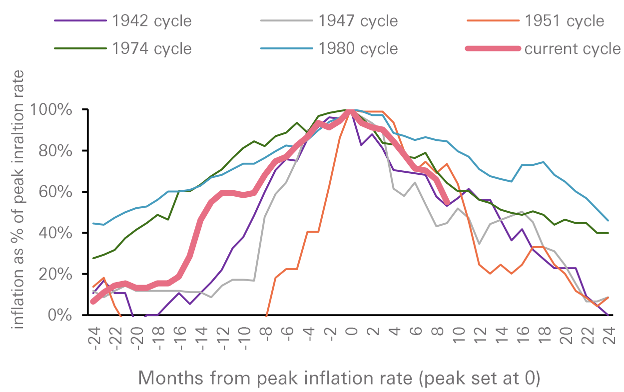
Talking points

Each month, we discuss 3 key issues facing investors

1. Is the peak of policy rates around the corner?

- Headline (5%) and core inflation(5.6%) y-o-y in the US continued to fall in March thanks to lower goods, energy and rental costs, leading to markets to price in one more rate hike. The downward trend of inflation is positive for both equities and bonds.
- Given the current economic and financial backdrop, we maintain our view that there is likely to have one more 0.25% rate hike by June, pushing the Fed funds rate to peak in the range of 5.25-5.50% until Q2 2024. While the US banking industry seems resilient, there are increased downside risks to growth and upside risks to unemployment.
- As a result, **we remain focused on investment grade with maturities up to 5-7 years to lock in higher yields**. As earnings downgrades should continue in the financial, real estate and technology sectors in particular, **we favour quality companies with profitability and manageable leverage.**

Chart 1: Inflation has continued to fall, roughly in line with the experience of previous cycles

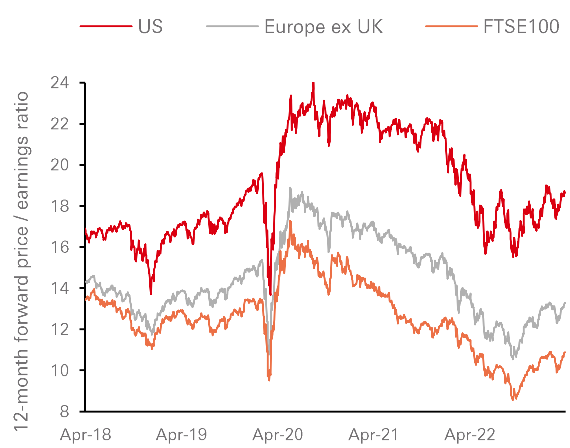


Source: Bloomberg, HSBC Global Private Banking as at 18 April 2023.

2. What support our neutral stance on global equities?

- Following some volatile weeks, markets have further calmed down with equities having rebounded. We think the bounce has not come from earnings or economic growth but rather from rates, as proven by the high correlation between bonds and equities. As hopes for rate cuts are premature in our view, we favour companies, sectors and geographies that can deliver solid earnings growth.
- Although slowing growth, as well as tighter financial conditions and margins, will lead to further earnings downgrades in the US, we believe that an imminent recession is unlikely and expect earnings to change in H2. Moreover, in the six prior monetary policy tightening cycles, US equity markets rallied almost 20% in the subsequent 12 months after Fed paused, **supporting our overweight on US equities**. In the UK, as economic data seem to have bottomed, we believe that the Bank of England is likely to deliver only two more 0.25% of rate hikes and then pause (markets are pricing in three hikes). This supports valuations which are currently cheap. **We upgrade UK equities to neutral.**
- In contrast to slowing growth in the West, **China's reopening and strong Q1 GDP data of 4.5%, along with improved fundamentals in Asia,** make the region a sweet spot to invest compared to developed markets. In short, we remain neutral on global equities, and stay invested and diversified in quality assets.

Chart 2: UK stocks are cheap vs Eurozone and US stocks

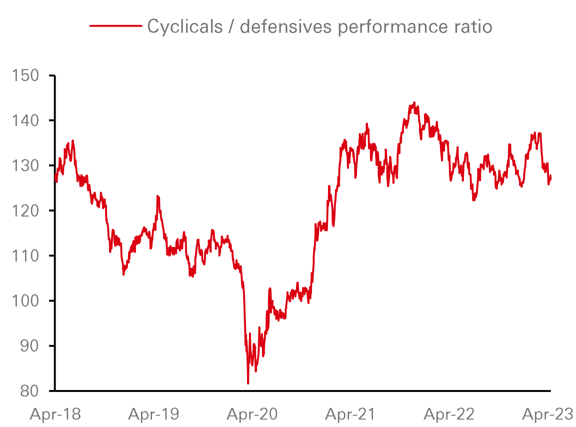


Source: Bloomberg, HSBC Global Private Banking as at 18 April 2023.
Past performance is not a reliable indicator of future performance.

3. How to position sector allocation amid reduced cyclical risks?

- Cyclical risks are reducing on the back of the easing banking crisis, as well as peaking policy rates and falling inflation in the US. While cyclical stocks have underperformed, they are cheap relative to their historical levels and the defensive sectors, presenting good opportunities in selected space.
- With increased potential for structural growth in technology (e.g. automation and AI development), **we upgrade global and US IT to overweight**. As valuations are not cheap, we focus on companies that will deliver on earnings. We downgrade global energy to neutral as further upside on prices is limited but cash flows should remain strong. Tightening credit lending and less likelihood of quick rate cuts lead us to underweight global and US real estate. **We also upgrade industrials and downgrade healthcare to neutral in Asia** amid a better cyclical outlook in the region.
- Interest rate sensitive sectors such as housing, autos, financials and (to some extent) IT will see further downgrades. A mixed sector allocation between cyclicals and defensives is still recommended although we have moved to a mild cyclical tilt.

Chart 3: Cyclicals are trading near the cheaper end of the 3-year range compared to defensives



Source: Bloomberg, HSBC Global Private Banking as at 18 April 2023.
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Asset Class Views

Our latest house view on various asset classes

Asset class	6-month view	Comment
Global equities		
Global	▶	The cyclical outlook has improved but earnings are mixed with western economies slowing down. We focus on companies, sectors and regions where earnings are resilient and prefer Asia over developed markets.
United States	▲	We expect earnings downgrades to continue in the financial, real estate and technology sectors due to the recent banking crisis, causing US equities to consolidate in the near term but stay positive on the longer term with a pause from the Fed and continued disinflation.
United Kingdom	▶↑	We upgrade UK equities to neutral as economic data seem to have bottomed, along with cheap valuations and the nearing of a peak in the Bank of England's rate hike cycle.
Eurozone	▶	We prefer core Europe (Germany and France) over the periphery (Italy and Spain) as the former are better positioned for improved Chinese demand, especially in the auto and are less hit by stringent bank lending.
Japan	▶	While both headline and core inflation are now above policy target, investors still need more data to justify the case for sustainable growth in wages and consumption. JPY strength could also challenge the recent growth in exports.
Emerging Markets (EM)	▶	China's reopening and USD weakness are positive for emerging markets, particularly EM Asia, which benefits from a rebound in Chinese demand and tourism.
EM EMEA	▼	The region is impacted by high energy prices, weak growth in Europe and an uncertain rate outlook.
EM LatAm	▲	The end of the rate hike cycle and rising Chinese demand are positives for Brazil, while Mexico will benefit from onshoring.
Asian ex Japan equities		
Asia ex-Japan	▲	The strong earnings growth in Asia and the pause in policy interest rate hikes by some Asian central banks provide a favourable environment for Asian ex Japan equities. A sustained and strong economic recovery in China should benefit Hong Kong as well as its regional peers, such as Thailand and Indonesia, in terms of tourism, consumption, investments and supply chain relocation.
Mainland China	▲	Despite soft property and private investment growth, China's Q1 GDP growth of 4.5% exceeded expectations, led by consumption. We expect accommodative fiscal and monetary policy support to continue.
India	▶	While the slowing growth outlook and stretched valuations remain key challenges, we position for India's structural growth associated with its digital economy, green transition and smart manufacturing.
Hong Kong	▲	Despite higher interest rates and uncertainties in export growth, consumption and tourism recovery should drive economic activity, benefiting retail landlords, as well as consumption and insurance companies.
Singapore	▶	With sluggish manufacturing and trade sectors, we expect that the focus of the MAS will shift from high inflation to slowing growth. The tightening cycle has come to an end with the monetary policy staying intact.
South Korea	▼	Private consumption and trade balance have improved but investment is likely to remain weak. Depressed memory-chip demand should continue to weigh on growth.
Taiwan	▶	The weakness in exports suggests that global electronics demand continues to remain weak in the near term. We stay neutral on both Taiwanese equities and the Asian IT sector.
Government bonds		
Developed markets (DM)	▼	As rate expectations have fallen too much, we see better opportunities in investment grade bonds.
United States	▶	We continue to focus on medium duration for US sovereign bonds with the peak in policy rates approaching, and expect a more gradual fall than market expectations thereafter.
United Kingdom	▲	UK gilts are supported by the forecasts of peaking UK policy rates. GBP strength vs USD can help returns for foreign investors.
Eurozone	▼	Government bonds are less preferred as higher yields can be found in other bond or investment grade markets.
Japan	▼	As the Bank of Japan expects domestic inflation to slow in the coming months, we believe that the new central bank governor will take time to change policy direction. A further softening of the USD versus JPY will drag on exports.
Emerging Markets (Local currency)	▶	Select opportunities exist as some economies are slowing rate hikes but others continue. USD weakness remains a tailwind.
Emerging Markets (Hard currency)	▶	Amid higher Treasury volatility, we still find yield but remain selective and bearish on USD.
Corporate bonds		
Global investment grade (IG)	▲	As we expect policy rates to peak soon, we maintain a medium duration (5-7 years) to balance yield levels against volatility.
USD investment grade (IG)	▲	Earnings downgrades and peaking policy rates support our overweight on investment grade medium maturity credit.
EUR and GBP investment grade (IG)	▲	With increasing evidence that we are at the end of the global credit cycle, we continue to favour EUR and GBP investment grade within the medium duration space.
Asia investment grade (IG)	▲	Asia investment grade credit is better positioned against recent market volatility and global slowdown due to China's reopening and stronger fundamentals in the region.
Global high-yield (HY)	▶	As spreads should remain volatile amid higher for longer rates, and high yield is sensitive to growth slowdown, we remain neutral.
US high-yield (HY)	▶	While US high-yield companies still enjoy solid credit fundamentals and low default rates, spreads are not particularly generous and markets could price in slightly higher default rates ahead as financial conditions tighten.
EUR and GBP high-yield (HY)	▶	Despite improved optimism on Europe's growth outlook, tighter monetary policy remains a challenge. We prefer higher quality investment grade credit and maintain a neutral stance on high yield amid expectations for rising default rates.
Asia high-yield (HY)	▶	Inflation, Fed tightening and slowing global demand remain headwinds for credit spreads. We stay cautious on Chinese property high yield and prefer state-owned developers due to their stronger financial positions and lower leverage.
Commodities		
Gold	▶	Gold benefits from USD weakness and central bank buying but real yields are a challenge and mining output is rising.
Oil	▶	As our oil price forecasts are close to the current level, we see limited upside for outperformance.

Sector Views

Global and regional sector views based on a 6-month horizon

Sector	Global	US	Europe	Asia	Comment
Consumer Discretionary	▲	▲	►	▲	Inflation has eased in many regions including Europe where energy prices are more elevated. Rising wages are helping to lift consumer sentiment. Discretionary spending especially in the services segment including airlines, hotels, restaurants and resorts are expected to benefit. Automakers are seeing supply issues ease. Luxury goods segment is seeing strong demand and exceptional pricing power.
Financials	►	►	►	►	Positive momentum in the banking sector in earlier months was sharply reversed with the events surrounding Silicon Valley Bank in the US and Credit Suisse in Europe. The sector appears to be stabilising but while valuations look tempting, further clarity is needed so we hold a neutral view across the sector.
Industrials	▲	▲	▲	►↑	Macro-economic concerns have eased but input costs remain elevated. Stronger-than-expected China's growth following the ending of COVID restrictions warrants our upgrade in Asia to neutral. European exporters are benefiting as seen in the Q1 results. Valuations in the US and Europe have recovered, but remain low in Asia. Companies supporting renewable energy, electric vehicle production and digital infrastructure should benefit from rising demand and government initiatives.
Information Technology	▲↑	▲↑	▲↑	►	Overall fundamentals outlook is steadily improving leading to our upgrade as digital, AI and automation trends are becoming more constructive, although certain semiconductor markets remain oversupplied. Cloud computing and digital advertising growth remains slow.
Communications Services	▲	▲	►	▲	After several challenging quarters, the media & entertainment industry may be seeing some bright spots. Telecoms services are also likely to continue to benefit from higher digital content demand and roaming fees as consumers travel more and become more socially active. Valuations are more attractive following last year's sell-off except in Europe.
Materials	►	►	▲	►	Mining stocks are trading on low valuation multiples relative to other industries but China's re-opening is likely to see modest demand recovery initially. Energy prices and oil/gas feedstock prices remain elevated crimping the outlook for chemicals and construction materials industries in Q2/Q3. The expected pick-up in iron ore demand has failed to materialise and prices are now falling back. The outlook for copper remains positive given the drive for renewables and electrification.
Real Estate	▼↓	▼↓	▼	►	The sector appears increasingly challenged by rising interest rates and softening demand in many categories, which have triggered our sector downgrade. Long-term structural changes due to differing consumption and usage patterns as a result of secular trends including ecommerce, digital technologies, urbanisation and work-from-home are hitting many existing and new projects. In addition to changing demand, declining yields and rising regulation are headwinds for some markets.
Consumer Staples	►	►	►	▲	Global and European consumer staples face a more challenging pricing environment after last year's above inflation rises and rich valuations. We focus on quality stocks with strong brands and more resilient pricing power. Dividends are also recommended where attractive.
Energy	►↓	►↓	▲	►	After the recent rebound in energy prices, we downgrade the sector to neutral as further potential upside appears more limited with spring approaching in the northern hemisphere and adequate supplies, although OPEC+ may further tighten oil supplies. Valuations remain undemanding, but as higher energy prices annualise, sales and earnings growth potential may be more limited.
Healthcare	►↓	►	▲	►↓	We downgrade the sector following the recent outperformance that has lifted valuations but remain constructive on high quality biotechnology and medical technology stocks with profitable business and good product pipelines. Early stage companies or those with higher leverage or financing costs should be avoided given the elevated interest rates.
Utilities	►	►	▲	►	European sector valuations remain attractive with earnings revisions for the sector also supportive. The sector's stable earnings/cash flow characteristics and high dividend yielding stocks appeal to more cautious investors.

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Nilai investasi dan pendapatan dari investasi tersebut bisa turun dan juga naik dan ada kemungkinan investor kehilangan nilai pokok yang diinvestasikan. Kinerja masa lalu yang terkandung dalam dokumen atau video ini bukan merupakan indikator yang dapat diandalkan untuk kinerja di masa mendatang, sedangkan prakiraan, proyeksi, dan simulasi apa pun yang terkandung di sini tidak dapat diandalkan sebagai indikasi hasil di masa mendatang. Jika ada investasi luar negeri, nilai tukar mata uang dapat menyebabkan nilai investasi tersebut turun dan juga naik. Investasi di pasar negara berkembang pada dasarnya berisiko lebih tinggi dan berpotensi lebih tidak stabil daripada investasi di pasar negara maju. Perekonomian di pasar negara berkembang umumnya sangat bergantung pada perdagangan internasional dan, oleh karena itu, telah dan kemungkinan dapat terus terpengaruh oleh hambatan perdagangan, pengawasan bursa, penyesuaian terkelola dalam nilai mata uang relatif, dan tindakan protektif lainnya yang diterapkan atau dinegosiasikan oleh negara tempat terjadinya perdagangan. Negara-negara ini juga telah dan mungkin dapat terus terpengaruh oleh kondisi negatif ekonomi di negara-negara mitra dagang mereka. Investasi memiliki risiko pasar, Nasabah wajib membaca semua dokumen terkait investasi dengan cermat.

Dokumen atau video ini memberikan ikhtisar tingkat tinggi tentang kondisi ekonomi terkini dan disiapkan hanya untuk tujuan informasi. Pandangan yang disajikan adalah pandangan HBAP dan didasarkan pada pandangan global HBAP dan belum tentu selaras dengan pandangan distributor lokal. Dokumen atau video ini belum disiapkan sesuai dengan persyaratan hukum yang dirancang untuk mendorong independensi penelitian investasi dan tidak ada larangan bertransaksi sebelum pendistribusian. Dokumen atau video ini tidak bertujuan untuk menyediakan dan diandalkan untuk nasihat akuntansi, hukum atau pajak. Sebelum Anda membuat keputusan investasi, Anda dapat berkonsultasi dengan penasihat keuangan. Jika Anda memilih untuk tidak meminta saran dari penasihat keuangan, Anda harus mempertimbangkan dengan cermat apakah produk investasi tersebut cocok untuk Anda. Anda disarankan untuk mendapatkan saran profesional yang sesuai jika diperlukan.

Akurasi dan/atau kelengkapan informasi pihak ke tiga diambil dari sumber yang kami yakini dapat diandalkan mungkin belum diverifikasi secara independen, oleh karena itu Nasabah wajib mencari dari berbagai sumber sebelum membuat keputusan investasi.

Informasi Penting tentang HSBC Global Asset Management (Canada) Limited ("AMCA")
HSBC Asset Management adalah grup perusahaan, termasuk AMCA, yang bergerak di bidang penasihat investasi dan pengelolaan dana, yang pada akhirnya dimiliki oleh HSBC Holdings plc. AMCA adalah anak perusahaan yang dimiliki sepenuhnya oleh, namun merupakan entitas terpisah dari, HSBC Bank Canada.

Informasi Penting tentang HSBC Investment Funds (Canada) Inc. ("HIFC")
HIFC adalah distributor utama HSBC Mutual Funds dan menawarkan HSBC Mutual Funds dan/atau HSBC Pooled Funds melalui layanan HSBC World Selection® Portfolio. HIFC adalah anak perusahaan AMCA, dan anak perusahaan tidak langsung dari HSBC Bank Canada, dan menyediakan produk dan layanannya di seluruh provinsi di Kanada kecuali Prince Edward Island. Investasi reksa dana memiliki risiko. Silakan baca Fund Facts sebelum berinvestasi.

®World Selection adalah merek dagang terdaftar dari HSBC Group Management Services Limited.

Informasi Penting tentang HSBC Private Investment Counsel (Canada) Inc. ("HPIC")
HPIC adalah anak perusahaan langsung dari HSBC Bank Canada dan menyediakan layanan di seluruh provinsi di Kanada kecuali Prince Edward Island. Layanan Private Investment Counsel adalah layanan manajemen portofolio pilihan yang ditawarkan oleh HPIC. Pada layanan ini, aset Nasabah yang berpartisipasi akan diinvestasikan oleh HPIC atau manajer portofolio yang didelegasikan, AMCA, pada efek, termasuk namun tidak terbatas pada, saham, obligasi, reksa dana, dana gabungan, dan derivatif. Nilai investasi pada layanan Private Investment Counsel atau yang dibeli sebagai bagian dari layanan Private Investment Counsel dapat berubah sewaktu-waktu dan kinerjanya di masa lalu mungkin tidak dapat terulang kembali.

Informasi Penting tentang HSBC InvestDirect ("HIDC")
HIDC adalah divisi dari HSBC Securities (Canada) Inc., anak perusahaan langsung, namun merupakan entitas terpisah dari, HSBC Bank Canada. HIDC adalah layanan untuk menjalankan instruksi pesanan saja. HIDC tidak akan melakukan penilaian kesesuaian atas kepemilikan rekening Nasabah atau atas instruksi yang diajukan oleh Nasabah atau dari siapa pun yang berwenang untuk bertransaksi atas nama Nasabah. Nasabah memiliki tanggung jawab penuh atas keputusan investasi dan transaksi efek mereka.

Informasi Penting tentang The Hongkong and Shanghai Banking Corporation Limited, India ("HSBC India")
HSBC India merupakan cabang dari The Hongkong and Shanghai Banking Corporation Limited. HSBC India merupakan distributor Reksa Dana dan pemberi referensi produk investasi dari entitas pihak ketiga yang terdaftar dan diawasi di India. HSBC India tidak mendistribusikan produk investasi kepada perorangan yang berkewarganegaraan atau bertempat tinggal Amerika Serikat (AS), Kanada, Australia atau Selandia Baru atau yuridiksi mana pun di mana distribusi tersebut melanggar hukum atau peraturan.

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ISI DOKUMEN ATAU VIDEO INI BELUM DITINJAU OLEH OTORITAS REGULATOR DI HONG KONG ATAU YURISDIKSI LAINNYA.

ANDA DISARANKAN UNTUK BERHATI-HATI SEHUBUNGAN DENGAN INVESTASI DAN DOKUMEN ATAU VIDEO INI. JIKA ANDA RAGU TENTANG ISI DOKUMEN ATAU VIDEO INI, ANDA DAPAT MENCARI NASIHAT INDEPENDEN DARI PROFESIONAL.