

Investment Monthly

Ensure enough duration as bond yields look attractive

November 2023



Key takeaways

- ◆ Stronger-than-expected US economic data and concerns about high bond supply have pushed up bond yields for longer maturities, resulting in a less inverted Treasury yield curve and a steeper slope for investment grade. We extend our DM government bond duration positioning to “medium-to-long” (7-10 years) and maintain a medium duration in investment grade (5-7 years).
- ◆ Strong economic growth, continued disinflation and margin expansion should keep US Q3 earnings on the upside and support US equities. We upgrade Global and US energy to overweight on potential oil price rallies amid rising geopolitical risks and low US oil inventories. In addition to energy, we remain overweight on IT, industrials, consumer discretionary, financials and healthcare.
- ◆ The Middle East crisis has triggered a flight to safe havens such as the USD, US Treasuries and gold. Oil prices have also moved higher. As volatility is likely to remain high, it’s important to stay diversified and focus on quality. Our preference includes US Treasuries, UK gilts, Indian sovereigns and investment grade for bonds, and US and Asia ex Japan (India and Indonesia) for equities, with a focus on companies with strong market positions and balance sheets.



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Asset class	6-month view	Comment
Global equities	▶	As the global equity markets continue to face short-term challenges, we focus on quality companies with strong balance sheets and low levels of net debt and prefer the US and Asia due to their stronger fundamentals.
Government bonds	▶	We take advantage of the surge in yields to extend our duration positioning across DM government bonds markets.
Investment grade (IG) corporate bonds	▲	We maintain our overweight position as spreads adequately compensate investors and prefer medium durations to lock in yields at high levels for longer.
High yield (HY) corporate bonds	▶	As global high yield bonds are more vulnerable to tightened financial conditions and global slowdown, we prefer investment grade over high yield bonds.
Gold	▶	We remain neutral because on the one hand, geopolitical risks should create demand, but on the other hand, the strong USD and high interest rates are obstacles to gold’s performance.

▲ “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. What is the shape of the yield curve telling us?

- ◆ We believe the Fed is done with rate hikes because inflation has fallen significantly (3.7% y-o-y for September) and the tightened financial conditions driven by volatility in the markets have done some of the work for the Fed. The Middle East crisis also adds to the downside risks to US and global growth. We expect to see the first rate cut in Q3 2024
- ◆ While the Fed outlook mainly affects short-dated bond yields, the stronger-than-expected US economic data and concerns about high bond supply due to excessive US budget deficits and the resulting funding needs have pushed up bond yields for longer maturities. The term premium (compensation for economic and policy uncertainty above the markets' best assessment of the long-term policy rate path) has increased, leading to a less inverted Treasury yield curve and a steeper slope for investment grade. Investors who hesitated to lock in yields for too long previously should now be more convinced to do so.
- ◆ The current high real yields are unsustainable in our view but provide a good entry point to investors. We prefer high quality bonds and take advantage of the surge in yields to increase our duration positioning across DM government bonds to "medium-to-long" (7-10 years), **favouring US Treasuries and UK gilts**. We maintain **overweight on investment grade bonds** for medium durations (5-7 years).

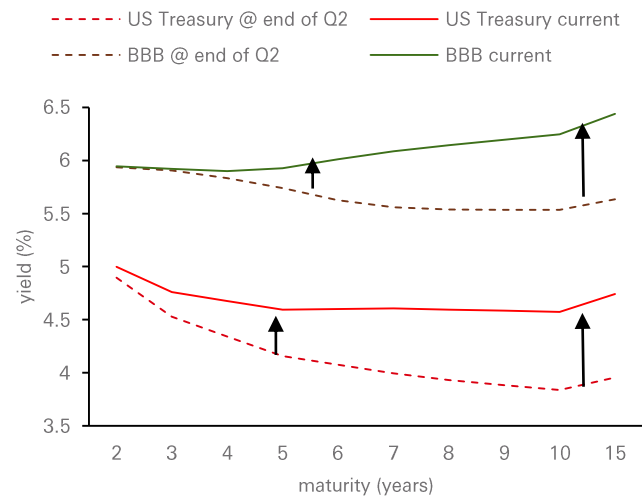
2. What should investors expect from the US earnings season?

- ◆ We think Q3 earnings in the US should surprise to the upside thanks to strong economic growth, continued disinflation and margin expansion. US banks have largely been beating expectations due to stronger-than-expected net interest income, loan growth, sales and trading activity and investment banking fees. The higher-for-longer policy rate environment is also positive for banks.
- ◆ Having said that, we are balanced between value and growth stocks to manage rate volatility. **We upgrade Global and US energy to overweight** because rising geopolitical risks and low US crude oil inventory levels should keep energy prices elevated in the short term.
- ◆ When the market fully prices in the soft-landing scenario and the prospects for lower market and policy rates next year, **we expect US equities to outperform and they remain our biggest equity overweight due to US economic resilience**. Sector-wise, our preference for technology, industrials, consumer discretionary, financials, energy and healthcare is well supported by fundamentals.

3. How should investors manage heightened geopolitical risks?

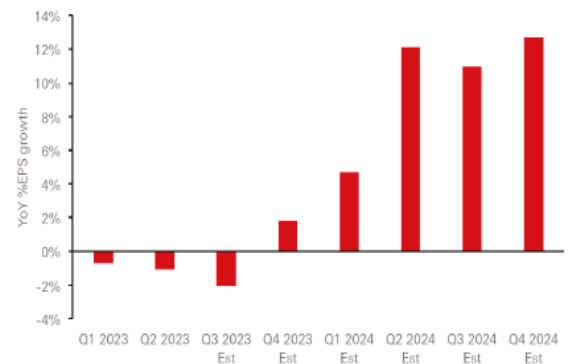
- ◆ The outbreak of the Middle East crisis has shocked the world and the event continues to evolve. Initially, there was a flight to safe havens such as the USD, US Treasuries and gold but we're seeing two-way volatility.
- ◆ During the Yom Kippur war of 1973, the OPEC oil embargo caused crude oil prices to rise from USD4/bbl to USD15/bbl before falling back to USD11/bbl, leading to a sharp fall in business confidence and economic activity. As calculated by the IMF, a 10% rise in crude oil prices typically leads to a 0.4% increase in inflation and a -0.15% reduction of growth forecasts. However, as the US is now less dependent on foreign oil, the market impact should be less than in 1973 unless the situation escalates.
- ◆ Nevertheless, volatility is likely to remain high and it's important to stay diversified and focus on quality. **Our preferences include US Treasuries, UK gilts, Indian sovereigns and investment grade for bonds, and US and Asia ex Japan (India and Indonesia) for equities**, with a focus on companies with strong market positions and balance sheets. We overweight the energy sector across regions on higher oil prices.

Chart 1: The Treasury yield curve is now much less inverted while the IG yield curve is upward sloping



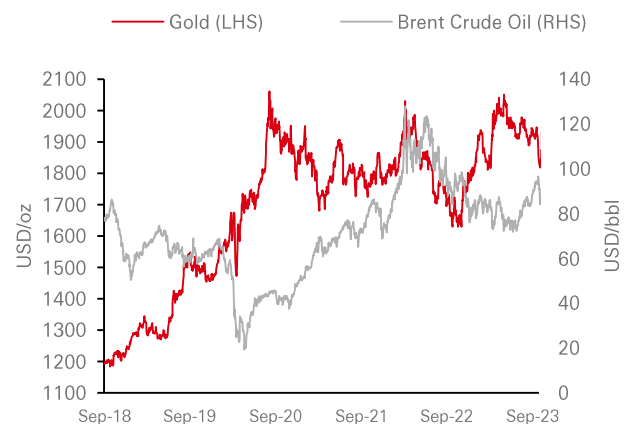
Source: Bloomberg, HSBC Global Private Banking as at 13 October 2023.

Chart 2: Improving soft-landing outlook supports rebound in US earnings expectations



Source: Bloomberg, HSBC Global Private Banking as at 10 October 2023. Past performance is not a reliable indicator of future performance.

Chart 3: Oil has moved up somewhat, together with gold



Source: Bloomberg, HSBC Global Private Banking as at 13 October 2023. Past performance is not a reliable indicator of future performance.

Asset Class Views

Our latest house view on various asset classes

Asset class	6-month view	Comment
Global equities		
Global	▶	As the global equity markets continue to face short-term challenges, we focus on quality companies with strong balance sheets and low levels of net debt and prefer the US and Asia due to their stronger fundamentals.
United States	▲	US earnings should benefit from the resilient economy, expected rate cuts in 2024 and continued disinflation. We still have a mild cyclical exposure but upgrade the energy sector to manage geopolitical and low oil inventory risks.
United Kingdom	▶	The UK stock market is relatively cheap and its energy sector provides support but sticky inflation remains headwinds for growth.
Europe	▼	Sticky inflation, high reliance on energy imports and high exposure to China are obstacles for European stocks.
Japan	▶	While cyclical indicators are supportive, positioning is elevated and high oil price is a challenge.
Emerging Markets (EM)	▶	We expect to see the strongest growth from Asia and the fastest pace of rate cuts in Latin American given their high level of real rates.
EM EMEA	▼	The region is impacted by high energy prices and weak growth in Europe. Turkey looks relatively attractive on improved macroeconomics and attractive valuations.
EM LatAm	▲	Local rate cuts and the re-industrialisation of North America are positives.
Asia ex Japan equities		
Asia ex-Japan	▲	Asia remains attractive because of its improving fundamentals, domestic momentum and less inflationary pressure. We prefer India and Indonesia in particular and become less positive on Thai equities due to political and growth concerns.
Mainland China	▶	We expect to see more policy support in areas of manufacturing upgrade, tech innovation and green development. Retail sales continue to stay strong but the ongoing property stress remains a drag.
India	▲	We remain bullish on India's strong structural and cyclical growth prospects, favourable demographics, potential monetary easing and a stable currency outlook.
Hong Kong	▶	Overall valuations are reasonable but the sentiment of the housing market remains weak. We see opportunities in the service consumption and insurance sectors.
Singapore	▶	Despite ongoing weakness in the global electronics cycle, trade stabilisation and the recovery in the travel and consumer-related sectors should provide some support.
South Korea	▶	Weak global demand for consumer electronics and the slow recovery in global smartphones remain headwinds.
Taiwan	▶	Despite weak global demand and elevated inventory levels, the equity market is supported by the AI related themes.
Government bonds		
Developed markets (DM)	▶	We take advantage of the surge in yields to extend our duration positioning across DM government bonds markets.
United States	▲	The current yield levels are attractive. As we think the surge in yields is too steep to be sustained, we extend our duration target to a medium-to-long stance.
United Kingdom	▲	We remain positive on gilts for a medium-to-long duration due to attractive valuations and the safe-haven demand.
Eurozone	▶	We extend our duration preference to "medium-to-long" to lock in the current yield levels for longer.
Japan	▼	We find Japanese government bonds unattractive given the potential end of the negative interest rate policy.
Emerging Markets (Local currency)	▶	Select opportunities exist as some countries cut rates but much is priced in. We are bullish on Indian bonds because of their inclusion in a global index and attractive yields.
Emerging Markets (Hard currency)	▶	Amid higher Treasury volatility, we still find yield but remain selective.
Corporate bonds		
Global investment grade (IG)	▲	We maintain our overweight position as spreads adequately compensate investors and prefer medium durations to lock in yields at high levels for longer.
USD investment grade (IG)	▲	We remain overweight on USD investment grade which offers attractive yields on an absolute basis.
EUR and GBP investment grade (IG)	▲	With rates plateauing, we continue to favour investment grade bonds and lock in current attractive yields.
Asia investment grade (IG)	▲	We favour Asian quality credit to capture attractive carry opportunities by locking in bond yields at decade highs and prefer Indian IGs, Indonesian quasi-sovereign IGs, South Korean issuers and select banks and insurers in Asia.
Global high-yield (HY)	▶	As global high yield bonds are more vulnerable to tightened financial conditions and global slowdown, we prefer investment grade over high yield bonds.
US high-yield (HY)	▶	Tighter financial conditions weigh on company margins and increase the risk of defaults. We remain selective and prefer quality issuers with strong market positions and manageable debt.
EUR and GBP high-yield (HY)	▶	Weak earnings growth and rising defaults remain headwinds, which are not priced in credit spreads.
Asia high-yield (HY)	▶	We remain negative on China's property sector and expect default rate of Asian high yield bonds to stay elevated in 2024.
Commodities		
Gold	▶	We remain neutral because on the one hand, geopolitical risks should create demand, but on the other hand, the strong USD and high interest rates are obstacles to gold's performance.
Oil	▶	The geopolitical tensions and low inventory in the US could keep energy prices elevated in the short term, but a strong USD may limit the upward potential in prices.

Sector Views

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

Sector	Global	US	Europe	Asia	Comment
Consumer Discretionary	▲	▲	▶↓	▲	Inflationary pressures have eased in many regions, but spending remains selective and somewhat subdued. US airlines have reported weakening demand after a strong summer, but other segments are holding up better. In Asia, consumer spending remains positive. We downgrade Europe on softening demand across luxury goods, travel, household appliances and automakers.
Financials	▲	▲	▶	▶	The sector is trading on attractive valuations and high interest rates are fuelling profits for the lenders. Although the interest rate cycle is close to peaking, higher rates are likely to persist. Regional banks face headwinds as mortgage and loan activity declines mainly due to higher interest rates. US financials are expected to benefit from improving fundamentals, low valuations, a pick-up in capital market activity triggering upgrades to revenue and earnings forecasts.
Industrials	▲	▲	▶	▶	After an optimistic start to the year, slowing economic growth, sticky inflation and the possibility that interest rates will remain elevated are weighing on sector sentiment. China's growth lacks momentum with demand for industrial goods remaining somewhat muted. Asian industrials continue to lag on a slower regional growth outlook and slower demand. In contrast, US industrials are gaining momentum as reshoring, fuelled by the US's Inflation Reduction Act (IRA) and Creating Helpful Incentives to Produce Semiconductors Act (CHIPS), is boosting activity.
Information Technology	▲	▲	▲	▲	Improving business and consumer sentiment is driving demand in certain sub-segments including digital, AI and automation. Fundamentals continue to improve with solid Q2 sales and earnings reported to date but cloud computing growth is showing signs of slowing from elevated levels.
Communications Services	▶	▶	▼	▲	Fundamentals remain positive, particularly in the US where earning growth is expected to be strong and valuations remain attractive even after a strong YTD performance. The outlook in Europe which is more focused on telecom services remains challenging. Asia offers a more attractive risk-return profile given the low valuations and stabilising regulatory environment.
Materials	▶	▶	▶	▶	Weak demand coupled with rising energy and feedstock prices remain major headwinds for base metals and chemicals producers. Unsurprisingly, sector valuations are depressed. Demand for commodities for electrification (EVs, tech and renewables) continues to be supportive in the medium term, but short-term issues are hurting demand.
Real Estate	▼	▼	▶	▼	The sector is challenged by rising interest rates and softening demand in many categories. In China, the sector is again entering a period of uncertainty. As a result, overall activity has declined with new build projects being delayed because of uncertain demand and spiralling costs.
Consumer Staples	▶	▶	▶	▲	Global and European consumer staples are experiencing a more challenging pricing environment, especially as cost pressures have receded. We expect lack-lustre results going forward following last year's above-inflation price rises, tough YoY comparables and rich valuations. We focus on quality stocks with strong brands and more resilient pricing power.
Energy	▲↑	▲↑	▲	▲↑	OPEC+ continues to tighten oil and gas supplies driving prices higher as concerns resurface ahead of winter in the northern hemisphere. Tactically, we upgrade the sector as geo-political tensions continue to rise. Valuations remain cheap relative to other sectors despite robust cash flow and stable high dividends.
Healthcare	▲↑	▲	▲↑	▼	New product launches, a less hostile pricing environment and the ebbing wave of major product patent expirations should help lift the sector after a period of underperformance. We upgrade European healthcare sector as the drop in sales post-COVID starts to recover, and new pharma products should lift sentiment and expectations. In Asia, valuations remain elevated, trading well above historical levels.
Utilities	▶	▼	▶↓	▶	European and US renewable energy companies are facing headwinds as rising costs are severely eroding expected returns and projects are facing long delays in grid connections. As a result, US's IRA and Europe's green initiatives have somewhat stalled. We downgrade European utilities to reflect this uncertain situation.

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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 akan terhambat oleh hambatan perdagangan, pengawasaan 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 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 independen. 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 ketiga 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 di Amerika Serikat (AS), Kanada, Australia atau Selandia Baru atau yurisdiksi mana pun di mana distribusi tersebut melanggar hukum atau peraturan.

Pernyataan berikut ini hanya berlaku untuk HSBC Bank (Taiwan) Limited terkait cara pendistribusian publikasi kepada Nasabahnya: HSBC Bank (Taiwan) Limited ("Bank") wajib melaksanakan hukum terkait kewajiban fidusia sebagai pihak yang logis dalam melakukan penawaran/memberikan perhatian dengan cermat dalam menawarkan layanan/bisnis perwaliamanatan. Namun, Bank tidak menjamin apa pun atas kinerja manajemen atau operasi dari bisnis perwaliamanatan tersebut.

Pernyataan berikut ini hanya berlaku untuk PT Bank HSBC Indonesia ("HBID") : PT Bank HSBC Indonesia ("HBID") merupakan Bank yang berizin dan diawasi oleh Otoritas Jasa Keuangan ("OJK"). Nasabah wajib memahami bahwa kinerja masa lalu tidak menjamin kinerja masa yang akan datang. Produk investasi yang ditawarkan oleh HBID diterbitkan oleh pihak ketiga dan HBID merupakan agen penjual untuk produk pihak ketiga seperti Reksa Dana dan obligasi. HBID dan HSBC Group (HSBC Holdings PLC dan anak perusahaan serta perusahaan asosiasi atau cabang-cabangnya) tidak memberikan jaminan atas dasar transaksi investasi, nilai pokok atau tingkat pengembalian atas investasi Nasabah. Investasi di Reksa Dana dan obligasi tidak termasuk dalam cakupan program penjaminan simpanan oleh Lembaga Penjamin Simpanan (LPS).

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.

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Tidak ada bagian dari dokumen atau video ini yang diperbolehkan untuk diproduksi ulang, disimpan dalam sistem pengambilan, atau disebarluaskan, dalam bentuk apa pun atau dengan cara apa pun, baik secara elektronik, mekanik, fotokopi, rekaman, atau lainnya, tanpa izin tertulis sebelumnya dari The Hongkong and Shanghai Banking Corporation Limited.

Informasi penting terkait investasi berkelanjutan

"Investasi berkelanjutan" meliputi pendekatan atau instrumen investasi yang mempertimbangkan lingkungan, sosial, tata kelola dan/atau faktor berkelanjutan lainnya (secara kolektif, "berkelanjutan") untuk berbagai tingkat. Instrumen tertentu yang kami masukkan dalam kategori ini mungkin saja masih dalam proses perubahan untuk memberikan hasil berkelanjutan.

Tidak ada jaminan bahwa investasi berkelanjutan akan menghasilkan pengembalian yang mirip dengan investasi yang tidak mempertimbangkan faktor berkelanjutan. Investasi berkelanjutan mungkin dapat menyimpang dari tolak ukur pasar tradisional.

Sebagai tambahan, tidak ada definisi standar, atau kriteria pengukuran untuk investasi berkelanjutan, atau dampak investasi berkelanjutan ("dampak berkelanjutan"). Kriteria pengukuran investasi berkelanjutan dan dampak berkelanjutan dapat (a) sangat subyektif dan (b) bervariasi secara signifikan lintas dan di dalam sektor.

HSBC dapat bergantung pada kriteria pengukuran yang dibuat dan/atau dilaporkan oleh penyedia atau penerbit pihak ketiga. HSBC tidak selalu melakukan uji tuntas khusus terkait dengan kriteria pengukuran. Tidak ada jaminan: (a) bahwa sifat dampak berkelanjutan atau kriteria pengukuran sebuah investasi akan selaras dengan tujuan berkelanjutan investor tertentu; atau (b) bahwa tingkat atau target tingkat dampak berkelanjutan yang dinyatakan akan tercapai.

Investasi berkelanjutan adalah bidang yang terus berkembang dan peraturan baru dapat diberlakukan yang dapat memengaruhi cara suatu investasi dikategorikan atau diberi label. Investasi yang dianggap memenuhi kriteria berkelanjutan saat ini mungkin tidak memenuhi kriteria tersebut di masa mendatang.