



Opening up a world of opportunity

In conversation with Willem Sels, Global Chief Investment Officer Investing in the year ahead

Charlotte Kan:

Welcome. I'm joined by Willem Sels, he's Global Chief Investment Officer at HSBC Global Private Banking, to discuss the Investment Outlook report for 2022. It's entitled The Big Reset. Willem, thank you for joining us.

Willem Sels:

A pleasure to be here.

Charlotte:

So Willem, why The Big Reset?

Willem:

Well, we want to make sure that we see the wood for the trees, as they say, because we are going to get a lot of confusing data. Ups and downs, in inflation and in activity and so on. You know, the market is going to focus on that.

But to look through some of the volatility this will generate, we want to invest for the longer term as well as focus on those bigger themes.

Charlotte:

And what does a resilient portfolio look like?

Willem:

It's a diversified portfolio across asset classes, across regions, across styles, across sectors. And it's also a portfolio that uses alternative asset classes. So I'm thinking of hedge funds here because they can actually benefit from volatility by doing relative value trades.

I'm also thinking of private assets because they have a longer-term investment horizon. And so they can look through the short-term volatility, and they can also actually be aligned with those longer-term trends and themes that we see.

Charlotte:

So what have you identified as the key drivers of the markets and investments this year?



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Willem:

Well, first, we want to remain invested, because the economic cycle continues, earnings are going to be healthy, and cash rates are still going to be very low, so it's not profitable to sit in cash. We need a yield pickup.

So we see value in emerging market corporate bonds and in high yield, and in the equity market we see that upside. But we will need to obviously manage that volatility by being diversified. And then from a longer-term perspective, you know, we invest in the themes that are related to Asia, that are related to the digital transformation and sustainability.

Charlotte:

What do you expect to be the key challenges for the world's economy this year?

Willem:

So it's first and foremost when are economies going to reopen, when are consumers going to find that confidence? And to go back to work, obviously, versus working from home, to spend, to travel? When are businesses going to start to invest? They actually have quite solid cash balances and need to invest in innovation, in automation and so on.

But the timing issue is there.

And then obviously the uncertainty around the interest rate cycle can create the risk of a policy mistake. Central banks going too slowly or too fast would both be an error.

We do think that central banks are communicating very well – as well as they can. But still, it is something that we need to manage in portfolios.

Charlotte:

So what should we pay attention to this quarter and the following quarters?

Willem:

So in the very short term, it's all about the reopening: which economy is further advanced than others. And obviously it's around interest rates as well. You know, the UK and the US are going to be really a focus in terms of the central bank action with three interest rate hikes this year.

But also, we do think that later on in the year, we are going to start to see more confidence in Asia. For the moment, we have a neutral allocation to China equities and to Chinese bonds as well.



But we do think that as we go into the second quarter and maybe the second half of the year, you're going to start to see that positive effect from monetary and fiscal stimulus in China. And therefore, you're then going to get investor flows back in the country because it is a cheap market.

Charlotte:

Beyond 2022, have you identified megatrends that will completely reshape the investment landscape?

Willem:

So the first one is sustainability. If you think about a trend that is rooted in science that is going to take several decades to address in terms of climate change and that has global commitment from all kinds of stakeholders, you come to climate change, and it's very rare that you have any trend that has such strong structural support.

So there, there are opportunities, in our view, around the energy transition, obviously, but also around biodiversity, because biodiversity is the element within sustainability that is furthest on the path of no return, so becoming very, very urgent.

So governments need to invest in this. They also need to invest in the digital infrastructure that I mentioned. You're going to see this around the world and in Europe, around the EU Next Generation Fund. And we see companies invest in automation, in robotics, as I mentioned, in smart mobility, you know, a lot of opportunities there and also in health technology.

So healthcare is the last element that I would take as a longer-term trend. Not just because of COVID, but also because of global ageing, which is a longer-term trend, and the, you know, wealthier households in the emerging markets that have the money to spend on it now. So to me, it's also a longer-term trend, and it's technology that enables it. The technological innovation in biotech, in devices that you can wear and so on. So a very well-supported structural trend.

Charlotte:

So based on this, where should we invest or not?

Willem:

So we should be invested because cash is still going to earn you very low returns. And because the economic cycle continues, earnings continue. So we have the confidence to invest both in the equity markets and in credit and in the emerging market bonds.

From a geographical perspective, we like US equities, European equities and then ASEAN countries. And the reason is that from a US perspective, we have lots of



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technological companies that are well adapted to that digital transformation and a lot of what we call quality companies with strong earnings power.

In Europe, it's about better value, and it's also a region that is well supported by the EU Next Generation Fund. And then ASEAN, for now, is a way to diversify our exposure within Asia whilst we remain neutral on China, but also because it is probably the only region where we will see an acceleration in growth relative to last year.

Charlotte:

Willem Sels, thank you very much.

Willem:

Thanks for having me.