HSBC

Video Transcript

HSBC Investment Outlook – August 2023 Monthly View
Willem Sels Video

"Everything is relative", they say…

And indeed, in markets, we need to compare data relative to expectations, and sectors or companies relative to others. So what are we seeing currently? The global economy is slowing, but less than expected. Earnings are better than analysts feared. And global inflation is coming down more quickly relative to expectations. So that's a positive mix for risk assets, and we continue to invest our cash, across bonds, stocks and alternatives. Within that positive global picture, however, there is a lot of relative divergence. The US economy shows much more resilience relative to the Eurozone or the UK. And that explains the outperformance of US stocks and our continued overweight there, while we're becoming less positive on Germany and move Eurozone stocks to a small underweight. We're not too worried about the high US valuations because IT and consumer discretionary are the sectors with the most rapid earnings upgrades – so the earnings support the recent outperformance.

We continue with our cyclical US tilt and upgrade US financials to overweight this month. And because investors increasingly look for a soft landing in the US economy, we see some signs of a broadening of the US equity market rally, which is a healthy sign. Crossing the Atlantic, we think the market is expecting too many UK rate hikes by the Bank of England, especially after the recent fall in inflation. So we take profit on our bullish sterling view, and move sterling to neutral. For the same reason, we're increasingly comfortable with extending gilt duration, to 7-10 years. In the rest of the world, however, we continue to focus on 5-7 year maturities, but we maintain our big overweight in high quality bonds across developed and emerging markets. In Asia, we maintain our diversified approach, with overweights in mainland China, Hong Kong, Indonesia and Indian equity markets. In terms of relative valuations, China remains very cheap and one of the most under-owned markets for institutional investors. So as Chinese policy stimulus continues, risk premia should compress somewhat and later this year, better earnings and economic growth should give a further lift to stocks.

So we have three priorities this month. First, our high conviction theme of American Resilience remains well supported by the earnings, the momentum and the flows. We focus on companies that can deliver on earnings, but there are plenty of them that are doing that, as illustrated in the earnings season. Secondly, we exploit the dispersion and the dislocations and some of the relative differences in fundamentals and valuations that we've just talked about through active strategies, including alternatives where appropriate. And third, we capture Asia's upturn. So in summary, we maintain our glass half full attitude and see many opportunities to put cash to work.