Video Transcript

HSBC Investment Outlook – November Monthly View
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Market volatility has picked up in the past month. First, because of the sharp rise in government bond yields and lately because of the devastating events in the Middle East. The conflict has shocked the world and events continue to unfold, so volatility will probably remain with us.

Bond markets continue to be in the driver's seat. But while there is some uncertainty about the next move of the Fed and the impact on short dated bonds, it is the movements of the longer end that are now the real focus of investors. And those longer dated bond yields have been pushed up sharply due to stronger than expected US economic data and concern around high US bond supply.

But we think real yields at the current level are now unsustainable, and that provides a good entry point for investors. The relative moves of short and long dated maturities also mean that the yield curve is now much less inverted for US Treasuries, and it is even upward sloping for investment grade bonds. And that removes a big obstacle for those investors who have been torn between the desire to lock in yields for longer but were not willing to give up yield by extending duration.

So we take this opportunity to extend our duration preference for developed market government bonds to 7 to 10 year maturities, and we maintain a medium duration for investment grade corporate bonds, that's 5 to 7 years, and that's well above the typical duration exposure of many investors.

At the current level, we find that interest rate exposure is much more generously priced than credit risk, and we therefore continue to focus on quality bonds, especially, of course, in this uncertain global context.

So our first priority this month is to use this spike in term premia to ensure portfolios have enough duration exposure. Our second area of focus is the overweight on US stocks, as we have started the earnings season. Consensus earnings expectations are on the conservative side in the US, given that economic growth has been quite resilient there.

And our preferred investment strategy is through our three high conviction themes, which provide good sector and style diversification between them. So, for example, our 'American Resilience' theme focuses on the consumer, while the 'North American Re-industrialization' theme, overweights industrials, and our healthcare theme has a low volatility and quality style tilt.

Our third priority is hedge funds, to further diversify and manage portfolio volatility. The macro economic data remain volatile, and uncertainty of course, is very high, so to diversification and active trading strategies that hedge funds provide can be valuable. So overall, our two biggest overweights remain in high quality bonds and hedge funds, and those complement our overweights in US and Indian stocks.

Our focus is on quality, in equities and in fixed income, and that remains very relevant. And we also maintain our bullish view on the US dollar, and we overweight energy stocks.