

HSBC Global Private Banking – October 2023 Monthly View

Positioning for the policy rate plateau and US cyclical outperformance **Willem Sels**

Following some key central bank meetings, we think we have entered a new stage. In Europe, it is quite clear that there should be no further rate hikes, but an extended period where policy rates remain unchanged, which is what we call a rate plateau. We also think this is the case in the US, thanks to a continued fall in core inflation—so whilst the market thinks there is still a chance of a further rate hike, we don't think this will happen.

This has a few implications. As we noted in our investment outlook earlier this month, a rate plateau tends to be positive for both stocks and bonds, so, we continue to put our money to work. Secondly, if policy rates go sideways, they will be less of a driver for markets, and instead, the focus will turn to growth rates, earnings and growth differentials. And here, of course, the US stands out as being much more resilient than Europe. This is because of the resilient US labour market, the sharper fall in inflation compared to Europe, and government stimulus plans like the Inflation Reduction Act. So, we continue to favour the US equity market over the Eurozone, and we see opportunities in a wide range of US sectors, because earnings momentum is solid in areas like IT, industrials and consumer discretionary. This is reflected in our three high conviction themes, called American Resilience, North American Re-Industrialisation and Innovation and Opportunities in US Healthcare.

That US economic outperformance is also supporting the US dollar, so we hold a bearish view on EUR, GBP and NZD. To find currencies that outperform the US dollar, we need to look at select emerging markets, and we are positive on the Mexican Peso, the Brazilian Real and the Indian Rupee.

For bond markets, however, the stronger-than-expected US data has been a challenge, and Treasury yields have continued to rise in recent weeks. But with real yields now at the highest level since 2008, the risk of further upside gets ever more limited. In addition, the policy rate plateau should anchor the 'front end', i.e., the short-term yields. And longer-term maturities should also be anchored, given that the speculative community already has the largest negative bets in 5 years. So, we maintain our positive view on investment grade bonds. This month, we also upgrade Indian local currency bonds, following the inclusion in a key benchmark index. This upgrade adds to the positive view we already have on Indian stocks and the Indian Rupee.