

## HSBC Global Private Banking – July 2023 Monthly View

### **Fed policy and Chinese stimulus support our US and Asia equity overweight**

**Willem Sels**

Our mid-year Investment Outlook was titled Eastwards and Upwards, because of our optimism on the short and long term prospects for the Asian economies and for Asian markets. During our three-week long roadshow in Asia, we had the opportunity to gauge the sentiment on the ground. And I'm glad to say that the optimism of investors and business owners in the region supports what we see in the data. Southeast Asia and India are benefiting from the supply chain diversification, from strong consumption and digitalisation. China's economic numbers have been more mixed, with resilient consumption but headwinds from global trade and the property sector. We now expect a somewhat more muted recovery, with 5.3% GDP growth this year. But a series of rate cuts – with probably even more accommodation to come – should help support growth, sentiment and valuations. So, we move China from a full to a mild overweight, in line with our strategy to diversify our Asia exposure. And our preferred markets are Mainland China, India, Indonesia and Hong Kong.

Now, monetary policy is also key in the west, of course and the Fed decided not to hike interest rates in June and await more clarity on the effect of past rate hikes. And that again illustrates that we should be close to the peak policy rate, and we expect just one further hike of 0.25% in July in the US. Now, peak rates are positive for markets, and have been one of the factors explaining the support for interest rate sensitive stocks, including Tech. But what's key too are the policy differences between the US, the Eurozone and the UK. Compared to the US, inflation is stickier in the Eurozone, and especially the UK and that forces the ECB and the Bank of England to continue for a bit longer. That in turn should lead to further USD weakness against EUR and GBP, and is a headwind for European and UK markets compared to the US. And therefore, we continue to prefer US stocks.

So, what are our main priorities this month? First, to capture Asia's upturn, through a diversified approach and our high conviction themes, because Asian valuations are generally cheap, and earnings growth is much higher than in the west. Secondly, we focus on quality credit to lock in attractive current yields and we expect bonds to also see some price gains as US inflation continues to ease. And thirdly, we seek growth in profitable tech, because tech stocks benefit from peak rates and many tech companies have proven that they can generate solid earnings.