

Recovering and Rebuilding Investment Outlook First Quarter 2021

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Willem:

Welcome to HSBC Private Banking's 2021 Investment Outlook video. As we move into 2021, the global economy is gradually recovering. So far, manufacturing and the digital economy had been the two main engines of economic growth but consumption is also recovering with the US and China leading although Europe continues to lag

Of course the vaccine will play an important role here and although we don't know the pace of the rollout, what's clear is that the economy is going to be bigger and healthier in 2021 than it is now.

At the same time governments and companies are also rebuilding the economy by adapting to the changing realities. And fiscal spending in particular is going to support healthcare, green infrastructure and 5G. And what's especially good about these initiatives is that they are structural in nature providing investors some longer term direction and comfort.

Another area providing investors with comfort is central bank policy. The US Federal Reserve is very unlikely to raise interest rates in 2021. The Treasury yields should continue to trade in a range even as the economy recovers. Therefore, investors will continue to look for a yield pickup. So we are overweight in investment grade and BB-rated high yield. And we also see many opportunities in Emerging Market bonds but we focus on resilience with Asia in particular standing out there.

Fan:

On the idea of more comfort, Willem investors are also finding more comfort in geopolitics. The key risk even of the US election is now behind us. And if the Biden administration shifts towards a multilateral policy approach and re-alignment with the traditional allies this will imply a more rule-based policy stance at the White House.

Biden has pledged to re-join the World Health Organisation and the Paris Climate Agreement. Although we don't expect a quick U-turn in US-China relations we expect a return to a more predictable US trade policy. This should help reduce the geopolitical risk premium in the markets and therefore boost the global risk appetite.

Jose:

Thank you Fan and Willem. Everything you mentioned – the improving growth outlook, the continuation of low interest rates, and easing geopolitical risks – is positive for equities, and this supports our overweight on global equities, and our cyclical sector stance.

China is the biggest engine of the global growth acceleration in 2021, and one of the first countries to emerge from COVID-19. The government's clear Five-Year Plan has helped lift equity valuations and Asia remains one of our two big equity overweights.

The other overweight is the US, with households savings rate has risen in recent months, and low interest rates are boosting activity in areas such as housing, autos and technology.

We continue to see strong medium-term growth potential in the technology sector and for tech-savvy and innovative companies in areas such as automation and health technology. The US has many of these companies, supporting our US overweight.

As the vaccine treatment takes effect, and the economy reopens further, investors will take a more pro-cyclical stance, and we already have. But a cyclical stance does not mean that we move into low-quality stocks: so when investors look for value, we think it is important to stick to companies with strong balance sheets, and with business models that are well adapted to our new economy, including the digital economy and the sustainability revolution.

Willem:

You rightly mention the sustainability revolution there is not just a long term trend, but also one that would get a lot more traction in 2021 because of technological innovation and the rapidly expanding set of investment opportunities. So, sustainability is now such an important driver of a company's risks and opportunities that it needs to be part of any good portfolio strategy.

For investors who want to take a thematic approach we focus on the opportunities around the world's battle against climate change. Whether you look at the Biden administration's focus on green infrastructure, the EU's Next Generation Fund, China's commitment to net zero by 2060 it all suggests that sustainability is a major theme for 2021 and also in our view a major driver of performance.

Jose:

The world's digital transformation is well underway, and 5G should facilitate numerous cutting-edge technologies. Many of these are now well past the development phase and being implemented across the globe and across various sectors.

As equity investors, our task is to assess which companies will deploy these technologies most efficiently, because this will determine which ones are the outperformers and the underperformers in the post-COVID world.

New business models have emerged and COVID has compressed years of change into weeks. Companies capable of making the transition have seen rising efficiency, productivity, sustainability, and profitability.

Throughout the digital transformation, we continue to look for disruptive opportunities in both the goods and services sectors where technology is not just a part of change - but is driving that change. Some of the technologies include new business models of ecommerce, robotics, autonomous vehicles, tele-medicine, Fintech, 3D printing, and big data - to name just a few. Finally, the convergence of these technologies will enable new business models to emerge, creating an environment of innovation and disruption that should be quite positive for equity market returns.

Fan:

As an important part of the digital transformation that Jose just highlighted, Asia's digital economy has seen strong growth during the pandemic.

Led by China's strong recovery, Asia is expected to stay ahead in the global recovery and Willem mentioned our overweight on Asian equities, and Asian credit within the EM markets.

Under our new theme of Riding on China's Five-Year Plan, we capture opportunities from Beijing's "Dual Circulation Strategy", that pivots further towards domestic consumption and technological upgrade. China's new five-year plan sets the roadmap for the next phase of structural reforms, market opening and digital transformation.

Industry leaders in the semiconductor, robotics, automation, smart manufacturing, and digital supply chain sectors should benefit from the strong policy support. We also like companies with significant exposure in Shenzhen, China's Silicon Valley, and the Greater Bay Area.

When we look at what will recharge Asia's growth, the rise of its middle class consumers and strong private wealth growth stand out. Asia also has more advanced technology infrastructure than other emerging markets, and this supports the rapid adoption of e-commerce, remote working, digital payment, online entertainment and automation.

Our New Asian Consumer theme focuses on opportunities in digital consumer facing companies, healthcare and wellness providers.

Another focus for us is Asia's supply chain revamp, as there is increased specialisation of supply chains and diversification of supply chains away from China. Competitive Asian manufacturers can gain from rising import substitution and countries' increased focus on self-sufficiency after COVID.

The Biden administration may continue to restrict technology transfer to China and this could benefit Japanese, Taiwanese and Korean technology leaders. We expect China to increase imports from the rest of Asia after signing the Regional Comprehensive Economic Partnership that forms the world's largest free trade deal covering over 30% of global GDP.

Finally, we remain bullish on the theme of Asian Credit Opportunities due to the attractive risk/return trade-off and substantial yield pickup of Asian corporate bonds over developed market credit.

We stay overweight Chinese hard currency and local currency bonds.

Willem:

So let me briefly summarise our investment strategy for 2021. If we start from the fundamental view that the economy and profits will be healthier in 2021 than they are now, and that central bank policy continues to be supportive, then of course we should remain invested in equities, in credit and in Emerging Markets assets. There will be quite substantial volatility and headline risk, but unless these core assumptions change, we should stick to our strategy.

We don't think cash is the answer to managing volatility, because it will be a drag on performance. Instead, we think that portfolio diversification using things like gold and hedge funds is more appropriate.

We invest in the recovery by being overweight on riskier assets and having this cyclical sector exposure. And we invest in the rebuilding process through our high conviction longer term themes.



So I hope that this video has given you a good overview of our investment strategy for 2021, and directed you towards the best opportunities as we recover and rebuild.

Thank you very much for watching and I hope to see you at one of our upcoming Investment Outlook webcasts.