HSBC
Private Banking

Video Transcript

HSBC Investment Outlook, Third Quarter 2021: Shaping a better future.

Willem:

Global equities have benefited from strong risk appetite fuelled by investors' anticipation of the economic reopening and a bounce in economic activity.

And markets have been right to be optimistic. The earning season has been one of the strongest

in history, and the economic data have delivered on expectations.

But much may now be in the price.

And in fact, we expect the pace of growth in H2 2021 to start to normalize a little bit.

So whilst growth will remain healthy, the easy money may have been made.

So we remain overweight on equities, but start to make some tweaks to our stock and theme selection in anticipation of that normalization of growth.

And we start to focus more on those areas where we have the strongest conviction.

Fan:

Growth and inflation have been dominating the market action with fears that higher growth will lead to higher inflation, and indeed inflation has picked up sharply.

In part, this is due to commodity base effects, bottlenecks in the production chain and strong demand for consumer services are also driving up prices as economies reopen.

How long this will last is uncertain, so we may continue to see bond market volatility.

But as you say, much is in the price.

And that's the same for bond markets.

Once these bottlenecks ease and the growth spurt is slowing a bit, inflation should come down.

This should help stabilize US Treasury yields and in turn be good for investment grade and high yield.

As investors will search for yield, it will be a positive as well for EM bonds in hard and local currency and therefore our Asian Credit Opportunities theme remains in place.

Yes, Fan, the inflation outlook is not entirely clear, and as the market tries to assess when inflation will peak it will remain somewhat more volatile.

But we still have a healthy combination of strong economic growth and accommodative central bank policies, supporting the equity overweight.

But as the tide that lifts all boats, so to say, becomes somewhat less strong, we need to focus on those areas where we see the best fundamentals.

One thing which we have started to see is that manufacturing is no longer the only driver of economic activity.

Services have started to do better, with consumption probably becoming the number one engine of growth in H2 2021.

Consumption is changing as well.

It used to be online, and it used to be digital during the lockdown; and now it will be more broad-based, with retail and hospitality starting to do better.

Jose:

Yes Willem, we're particularly positive on the consumer discretionary sector because of this, but we still also have our overweights in financials and think there is some further upside in industrials and materials.

So we're still cyclical in our positioning, albeit with that growing focus on the consumer.

As for technology, growth stocks have been more volatile due to bond market volatility, but we see many reasons for structural support for the sector.

Geographically speaking, we have relative preferences as well.

The US remains our biggest overweight because the momentum of US data and earnings remains strong.

This is particularly the case for consumer related indicators, which, of course, have been supported by the fiscal support packages with the America's Family Plan further boosting US consumer confidence.

The UK also remains an overweight for us, and we see strong demand there as well.

Relatively speaking, there is less economic momentum in Europe, so we have a more neutral stance on the region.

But we have launched a European exporters theme because there are plenty of opportunities for European companies to benefit from the global recovery.

That's also why we overweight France and Germany.

Fan:

That's somewhat similar to the reason why we overweight Singapore as well, Jose.

Singapore is well positioned to benefit from the global recovery.

As for China, we think market fears of liquidity tightening risk look overdone.

The latest economic data shows that China's recovery path remains uneven.

Hence, the PBoC is in no hurry to raise interest rates or tighten credit conditions.

So far, the tightening of lending conditions has been targeted at the highly geared and

financially fragile property developers and state owned enterprises.

Lending to the private sector and manufacturing investment is picking up.

As for Chinese Internet stocks, the anti-monopoly regulations and oversight has created some volatility.

But regulation is increasing around the world.

Still, we see opportunities to diversify into automation and tech hardware.

China's fundamentals remain strong and resilient, warranting a continued overweight of Chinese stocks and bonds.

Willem:

Thank you, Jose and Fan, for presenting our cyclical preferences.

But policies are also influencing our relative preferences from a more structural perspective, as we try to build that better world.

And in fact, the American Jobs Plan, which invests in infrastructure, is trying to lift not just current growth, but also future productivity, which of course should be a positive for our US equity overweight.

We have launched an infrastructure theme which looks at physical, digital and social infrastructure, and it should benefit the corporate sector through a multi-year programme.

There's a significant green angle, of course, to this plan and that supports our Climate

Change Mitigation and Opportunities theme.

In fact, governments have made huge commitments, not just in the US and China, but in other countries as well.

And as we approach the Glasgow Climate Summit towards the end of the year, sustainability will be impossible to ignore for investors.

Jose:

If we're going to build a better future there are two further trends of importance.

First, we will need strong security, not just physically, but also online.

So we have launched a Total Security theme which focuses on digital and physical security and how emerging technologies can be best deployed and secured to provide value-added products and services while maintaining privacy and security standards for businesses and consumers alike.

A better world will also require continued advances in medicine and better and cheaper access.

Our health technology theme taps into healthcare innovation and an increasingly digital marketplace.

In fact, those two themes also illustrate the way that we look at technology: In our view, tech permeates every industry and we try to look for technologically advanced companies across all sectors.

Fan:

In Asia, major economies are heading towards a new growth path, driven by the rise of middle class consumers and technological innovation.

Our theme on Power of the Asian Consumer, focuses on opportunities in the digital consumer facing technology leaders as well as offline consumption plays that will benefit from the economic opening.

The theme on Asia's Supply Chains Revamp focuses on the winners of the regional supply chain reconfiguration and trade deal.

In China, the 14th five-year plan aims at achieving quality growth and technology self-sufficiency and sustainability under the dual circulation strategy.

We have launched a new theme, China's Future Society and Technology, which captures opportunities from the significant infrastructure investment for advanced technology, smart city clusters and provision of public services.

China's urbanization, aging population and rising income levels should drive robust demand for health care services.

Beijing's strong push for technology self-sufficiency should benefit the semi-conductor, 5G infrastructure, data centre and server and automation sectors.

We have a theme on China's Green Revolution that focuses on beneficiaries of the rapid development of renewable energy and electric vehicles and green technologies under the country's net zero transition.

Willem:

Thanks for helping me pick the areas with the strongest cyclical and structural support.

So even when the economic cycle starts to slow down a bit somewhere in H2 2021, there will still be plenty of opportunities in Asia, in technology and sustainability in particular.

And in the low yield environment, there are many opportunities to pick up yield and diversify in fixed income.

Cash rates remain unattractive, but all of those opportunities highlight that we should remain invested in a diversified portfolio.