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Video Transcript

HSBC Global Private Banking – July 2022 Monthly View
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The markets' focus is squarely on the policy tightening by an ever increasing number of central banks, and the question investors are asking is whether those rate hikes will lead to a global recession. Given the strength of the labour markets, the very low unemployment rate in many countries and the reopening momentum, there ought to be some buffer which allows growth to slow down without hitting negative territory. Our view remains that we probably won't see two successive quarters of negative growth in the US or for the world as a whole in 2022. But the risk increases next year, especially as forecasting consumer confidence is a tricky business. In any case, it is clear that market sentiment around growth is deteriorating quickly, because of the cost of living crisis. That crisis will last for longer because inflation will not decline much until we go into 2023; in fact, it will probably first rise a bit further from here. The Fed therefore recommitted itself more forcefully than usual to its inflation target, and we expect another 200bp of rate hikes this year in the US, starting with 75bp in July.

So although we have been focusing on quality, income and diversification throughout 2022, we think we need to adjust our positioning to take into account that even stickier inflation picture, our changed Fed forecasts, and the markets' fears of how that blunt instrument of rate hikes will affect economic growth. Until there is more clarity on those macro variables, opportunistic buying will remain limited in our view, even at current levels.

So, first, we downgrade high yield to neutral, moving further into investment grade instead. Our focus on BB-rated bonds within HY has helped, but we think that spread widening will continue and broaden across the HY spectrum. Of course, when moving into IG, it is important not to extend duration and keep it in the short-to-medium area. The other change we make is to our sector positioning, which has been defensive in Europe, but balanced in the other regions. We now move to a defensive stance globally by downgrading US technology and financials to neutral and also downgrading Asian financials by a notch. Rate volatility continues to be an obstacle for tech, and we also see some declining demand, while for financials, the flat curve, lower mortgage and lower M&A activity are obstacles. Tech and financials are also expected to lag during the upcoming earnings season.

As a result of these sector changes, we also put our 'Automation and AI' theme on hold, because it should see headwinds in the short term. And in fixed income, we refocus our theme of 'Resilient Carry in HY and EM' towards quality credit.

As markets have already dropped a lot, but on the other hand visibility remains low, we think now is not the right time to significantly reduce or build exposure. So we focus on volatility management and resilience rather than taking big directional exposure. The right strategy in our view is one that scans the portfolio and the investment universe for quality in both equities and FI, a strategy that limits duration (again in equities and fixed income), a strategy that maintains exposure to commodity stocks and commodity currencies, that opportunistically takes advantage of volatility spikes to generate income, and that looks for diversification and uncorrelated returns in hedge funds.