Video Transcript

HSBC Global Private Banking – February 2023 Monthly View
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In our 2023 Investment Outlook, which we released in early November, we highlighted that this would be a year where we need to progressively adjust our risk exposure as we make progress towards two milestones – namely, towards peaking interest rates and towards a stabilisation of the global economic growth outlook. Clearly, on that first milestone, we have made a lot of progress, and the likelihood that the Fed's rate hike in March will be the last in this cycle, is providing strong support for bonds, and we therefore maintain our overweight on investment grade, as well as EM hard currency corporate bonds in Latin America, the GCC and China. On the second milestone, of global growth expectations, we have made progress too. The change in China's policy from COVID containment to the medical response is key here, and is very positive news for growth, and not just in China and Asia, but globally, because it further reduces the risk of a global recession. What gives us extra comfort is that during our outlook roadshow in Asia, the large majority of the many business owners we spoke to were very positive on the region. So global economic sentiment is stabilising, equity analysts' expectations are more conservative and realistic than before, and equity positioning is not yet stretched. Putting all of this together, we move global equities from a mild underweight to neutral, first, by recommitting to our Chinese and Asian equity overweights: in fact, we further increase our existing overweights there and think the bounce has further to run. It is true that Chinese and Asian valuations have risen already, but they're not stretched, and the second leg of the rally should be driven by stronger Asian earnings growth. After the big outflows of 2022, foreign investors are still very underweight on China and need to gradually come back in 2023, providing some technical support. And apart from our Asia move, we cover our short in European stocks, moving them to neutral, because the region's exporters tend to benefit from stronger Asian growth, especially as the Chinese bounce will this time be largely consumer-led. Total returns on European equities should also be enhanced by a stronger EUR because, indeed, we think that the USD will move to weaker levels in coming months. After the USD weakness we've already seen in the past few weeks, the dollar may need to consolidate in the short term, but peak Fed rates, easing global growth concerns and recovering global risk appetite should all still weigh on the USD in coming months. So where do these changes leave us? It means that we're now underweight on cash, which is principally going into high quality bonds, Asian stocks and hedge funds. The moves also mean that we have a mild risk-on exposure overall, taking advantage of still low valuations and likely bottoming of sentiment but also still focusing on assets with strong fundamentals and on strong diversification.