

Q4 / 2019

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HSBC Jade Perspectives

Shaping your investment portfolio

Investments, annuity and insurance products

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VALUE



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What has happened in the global equity and bond markets?

HSBC Jade Perspectives is a publication specifically created for our Jade clients.

It explores the key global themes relevant to today's investors, while explaining their diverse implications.

“Muddling through” in volatile times

Last quarter we described the world economy as being “on a knife-edge”. Since then, it’s occasionally felt as if things may be tipping, due to a cocktail of geopolitical uncertainty, “on-off” trade tensions and weakened growth, particularly in countries heavily exposed to manufacturing.

We expect volatility to continue as markets struggle to predict the outcome, but still believe they will “muddle through”. Here’s why.

Central banks: rising to the challenge

The US Federal Reserve (Fed) has reacted fast with a couple of interest rate cuts, while the European Central Bank (ECB) has also made further cuts and re-launched quantitative easing (QE)¹. This marks a return (albeit on a smaller scale) to measures not seen in the US since 2008 or the Eurozone debt crisis, demonstrating a clear intent to avert severe economic malaise. If central bank policy isn’t enough, governments have indicated they may cut taxes or spend directly in their economies. We believe that together, these measures should stave off serious economic damage.

Will it be enough to boost markets?

Right now, it’s hard to say. Arguably, markets have already factored in the above-mentioned interest rate cuts - hence their strong performance this year. Given the unpredictability of the current geopolitical climate, we don’t blame investors for caution.

Where should you put your money?

Investors have to park their money somewhere. On page 16, we explain why equities still prevail as our long-term pick*. Right now, cash and bonds are not attractive based on the yields being offered. With interest rates at rock bottom and some cash rates below the rate of inflation, cash savers risk seeing their purchasing power diminish. Meanwhile, overall bond yields are unattractive, while negative yields on some government bonds in Japan and Europe mean investors are actually paying to invest in that asset class*.

Equities still the favourite*

So yes, we’re staying overweight on equities relative to cash and bonds. But this is very much a long-term strategic positioning – think a year or more – during which time we think prospective returns on equities will exceed other asset classes. In the short term, however, investors should be cautious when considering higher-risk assets, especially in a jittery market that’s vulnerable to downside shocks.

Implications for your portfolio

Investors should make sure their portfolios are properly diversified, and remain invested. We recommend maintaining an appropriate exposure to equities while also considering a low-volatility equity strategy. Meanwhile, although high quality bonds aren’t offering great returns right now, their ability to perform well in testing market conditions means they still have a role to play in most portfolios. If in doubt as to your next move, make pursuing a multi-asset solution your priority, effectively leaving the hard work to the experts while ensuring appropriate diversification for your risk level.



Jan-Marc Fergg, CFA
Deputy Head of Group
Wealth Management



Xian Chan
Global Head of
Wealth Insights

At a glance: your three-point portfolio strategy

Monitor risk carefully and don’t overreach on riskier assets

Invest for the long term, while favouring equities over cash and bonds

Diversify by mixing in high-quality bonds, or switch to a low-volatility equity strategy

Jan-Marc Fergg

Xian Chan

*Please refer to Endnote 2 and 3 in Endnotes section for additional information.

1. QE is a monetary policy whereby a central bank buys government securities or other financial assets from the market in order to increase the money supply and encourage lending and investment.

At a glance

A summary of Q4 2019 HSBC Jade Perspectives

Investment themes

1



Don't overreach on risk in the short term

2



Invest for the long term amid volatility

3



Consider low-volatility equity strategies

4



Include "safe haven" assets in your portfolio

Investment Views Summary

Bonds	Q3 views	Q4 views	Change
Developed Market Government Bonds	▼	▼	-
Emerging Market Government Bonds (local currency)	▲	▲	-
Global Investment Grade Corporate Bonds	▼	▼	-
Global High Yield Corporate Bonds	▶	▶	-
Equities*			
Global	▲	▲	-
United States	▲	▲	-
Japan	▲	▲	-
Eurozone	▲	▲	-
United Kingdom	▲	▲	-
Central & Eastern Europe and Latin America	▶	▶	-
Asia (excluding Japan)	▲	▲	-
Emerging Markets*	▲	▲	-

▲ "Overweight" implies a positive tilt towards the asset class, within the context of a well-diversified, typically multi-asset portfolio.
 ▼ "Underweight" implies a negative tilt towards the asset class, within the context of a well-diversified, typically multi-asset portfolio.
 ▶ "Neutral" implies neither a particularly negative nor a positive tilt towards the asset class, within the context of a well-diversified, typically multi-asset portfolio.

Source: HSBC Global Asset Management, as of Oct 2019. For full investment views, please see page 6.

Things we are watching



Central Bank Policy

- Statements by key central bank members
- Macroeconomic data, in particular for the US and China
- Unprecedented monetary and fiscal easing measures



Geopolitics

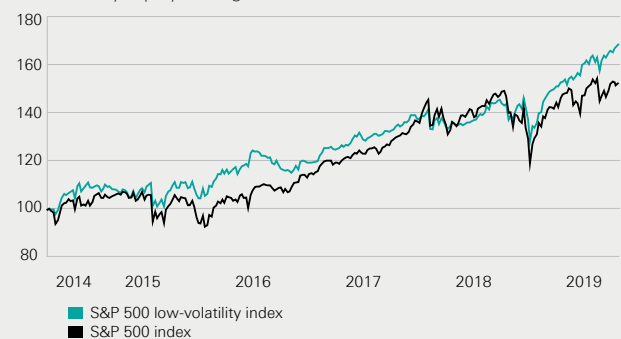
- US-China trade tensions
- US protectionism
- Brexit negotiations
- Geopolitical developments in oil-producing markets

*Please refer to Endnote 1, 2 and 3 in Endnotes section for additional information.

Chart of the Quarter (for more information, please see page 14)

S&P 500 low-volatility versus S&P 500¹

Low-volatility equity strategies are useful in volatile times



Selected asset class performance²

-5% 0% 5% 10% 15% 20%

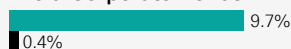
Global Equities



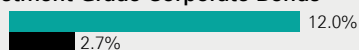
Global Government Bonds



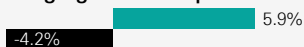
Global High Yield Corporate Bonds



Global Investment Grade Corporate Bonds



Emerging Market Equities



Emerging Market Local Currency Government Bonds



■ 2019 Year-to-Date ■ Q3 2019

Key economic events

Oct 2019

24 Oct

European Central Bank (ECB) meeting

29-30 Oct

US Federal Open Market Committee (FOMC) meeting

31 Oct

Bank of Japan (BoJ) meeting

31 Oct

Deadline for the UK either to leave or stay in the EU

Nov 2019

7 Nov

Bank of England (BoE) meeting

13 Nov

Deadline for US President to decide on tariffs on auto and auto parts

Nov (date to be confirmed)

Referendum on Japan's constitution

16-17 Nov

Asia-Pacific Economic Cooperation (APEC) Summit

Dec 2019

12 Dec

ECB meeting

12 Dec

US FOMC meeting

19 Dec

BoJ meeting

19 Dec

BoE meeting

Dec (date to be confirmed)

China Politburo meeting on economic policy
China Central Economic Conference

1. Source: National Bureau of Economic Research (NBER), Refinitiv Datastream, data as of 30 Sep 2019. Investment involves risks. Past performance is not indicative of future performance. For illustrative purpose only. Indices used: S&P 500 Low Volatility Index and S&P 500 Index (USD), rebase to 100.

2. Source: Bloomberg, 30 Sep 2019. Investment involves risks. Past performance is not indicative of future performance.

Note: the chart shows total returns of asset classes in USD dollar (USD). Asset class performance is represented by different Indices - Global Equities: MSCI ACWI Net Total Return Index; Global Government Bonds: Bloomberg Barclays Global Aggregate Treasuries Total Return Index; Global High Yield Corporate Bonds: Bloomberg Barclays Global High Yield Corporate Total Return Index; Global Investment Grade Corporate Bonds: Bloomberg Barclays Global Aggregate Corporate Total Return Index; Emerging Market Equities: MSCI Emerging Net Total Return USD Index. Emerging Market Local Currency Government Bonds: Bloomberg Barclays Emerging Market Local Currency Government Total Return Index.

Investment Views Q4 2019



Latest asset class views* (>12months)

- ▲ “Overweight” implies that, within the context of a well-diversified, typically multi-asset portfolio, and relative to relevant internal or external benchmarks, HSBC Global Asset Management has (or would have) a positive tilt towards the asset class.
- ▼ “Underweight” implies that, within the context of a well-diversified, typically multi-asset portfolio, and relative to relevant internal or external benchmarks, HSBC Global Asset Management has (or would have) a negative tilt towards the asset class.
- ▶ “Neutral” implies that, within the context of a well-diversified, typically multi-asset portfolio, and relative to relevant internal or external benchmarks, HSBC Global Asset Management has (or would have) neither a particularly negative nor a positive tilt towards the asset class.



Government bonds*

Developed Markets

Prices have risen and yields have fallen to new lows as investors flock to safe-haven assets. Despite unattractive valuations, government bonds still play an important role in diversifying a portfolio. Right now, we have a slight preference for short-duration¹ bonds.



Corporate bonds

*Global Investment Grade**

We remain underweight. Prospective returns are low and signs of strain on corporate fundamentals are starting to show, especially in Asia.



Government bonds

*Emerging Markets, local currency**

This is one of two fixed income areas where we're actually overweight, due to the potential for higher returns and a longer-term recovery among (selected) Emerging Market currencies.



Corporate bonds

Global High Yield

We're currently neutral on this growth-sensitive asset class. While decent global growth is supportive of low default rates, global high-yield bonds have had a strong rally so far this year, meaning they're no longer attractively valued.



Global equities*

While our long-term positioning here is overweight, we're inclined towards caution in the near term because of concerns around a slowing economy, trade tensions and geopolitics.

We therefore advocate investing in equities for the long term, while considering lower-risk equity options to manage short-term volatility.



Commodities*

Commodity futures can offer diversification benefits with inflation-hedging characteristics.

Although gold is seen as an inflation-hedging “safe haven”, its valuation relative to other assets is difficult to estimate and it has already rallied significantly this year.

*Please refer to Endnote 1 to 5 in Endnotes section for additional information.

1. Short-duration bonds are those with a lower sensitivity to changes in interest rates.

Source: HSBC Global Asset Management, as of 1 Oct 2019

Note: views are based on regional HSBC Global Asset Management Asset Allocation meetings held throughout September 2019, HSBC Global Asset Management's long-term expected return forecasts which were generated as at 31 Aug 2019, our portfolio optimisation process and actual portfolio positions. These views are not to be taken as an investment advice or recommendation to buy or sell investments or guarantee of returns, and are subject to change without prior notice. Please refer to the latest Investment Monthly or your relationship manager for more long-term asset class views.

Regional equity views* (>12months)

- ▲ “Overweight” implies that, within the context of a well-diversified, typically multi-asset portfolio, and relative to relevant internal or external benchmarks, HSBC Global Asset Management has (or would have) a positive tilt towards the asset class.
- ▼ “Underweight” implies that, within the context of a well-diversified, typically multi-asset portfolio, and relative to relevant internal or external benchmarks, HSBC Global Asset Management has (or would have) a negative tilt towards the asset class.
- ▶ “Neutral” implies that, within the context of a well-diversified, typically multi-asset portfolio, and relative to relevant internal or external benchmarks, HSBC Global Asset Management has (or would have) neither a particularly negative or positive tilt towards the asset class.



United States

Growth in both the economy and corporate earnings has slowed but they are still relatively strong. US equities may still be bolstered by the Fed’s “pre-emptive” interest rate cuts. Despite trade tensions and downside risks to growth, we believe a recession is unlikely in 2020.



Eurozone*

Following a substantial monetary policy easing package, including a restart of QE, ultra-low rates in the Eurozone are likely to persist beyond 2020. Low valuations in the Eurozone imply relatively higher prospective returns.



Japan*

Economic data has been weak and Japan’s policy rate is already negative. As well as the lack of rate cut options, sentiment may be dampened by a planned increase in consumption tax in October 2019. However, we still favour Japan equities because valuations are attractive and corporate balance sheets are strong.



Emerging Markets*

Emerging Market (EM) economies are supported by policy easing in China, a dovish Fed and clear easing measures by EM central banks.

However, EM growth momentum remains soft, while an unpredictable global trade outlook could weigh on these economies’ performance. Overall, we’re cautiously optimistic.



*Please refer to Endnote 1, 3 and 4 in Endnotes section for additional information.

Source: HSBC Global Asset Management, as of 1 Oct 2019

Note: views are based on regional HSBC Global Asset Management Asset Allocation meetings held throughout September 2019, HSBC Global Asset Management’s long-term expected return forecasts which were generated as at 31 Aug 2019, our portfolio optimisation process and actual portfolio positions. These views are not to be taken as an investment advice or recommendation to buy or sell investments or guarantee of returns, and are subject to change without prior notice. Please refer to the latest Investment Monthly or your relationship manager for more long-term asset class views.



United Kingdom*

The Pound's weakness (due to Brexit uncertainty) benefits UK multinationals when translating foreign earnings. Meanwhile, a negotiated Brexit, which is likely to lift some uncertainty, may cause a rebound in UK growth and boost domestically oriented stocks.

Either way, valuations are cheap for UK equities.



Central & Eastern Europe and Latin America*

There has been a loss of economic growth momentum in Latin America, although there are signs of stabilisation. Amid a tense, unpredictable geopolitical situation, we see better opportunities elsewhere.



Asia (excluding Japan)*

We have a minor preference for this region thanks to its attractive expected returns and resilient economic growth. Asia also enjoys more favourable macroeconomic and structural factors than other Emerging Markets, as well as accommodative central banks, including China's "deep policy" toolkit.



Quarterly Themes

Q4 2019



Positioning your portfolio for the coming quarter*

Over the past few months, sentiment has definitely taken a turn for the worse, with investors increasingly unnerved by geopolitical uncertainty, US-China trade tensions and slower economic growth. While these concerns are to a large extent justified, we hold the view that current recession fears are overblown. Nonetheless, **we think volatility is here to stay, sustained largely by the unpredictability of trade and geopolitics.**

It therefore makes sense to batten down the hatches and prepare for uncertainties in Q4. But we're certainly not advocating "jumping ship". **Investors should maintain their investment goals and optimise prospective returns, while ensuring appropriate levels of defensiveness to protect against volatility. As always, careful and selective judgement is vital.**

Trade tensions look set to continue

Markets had a brief tumble in August as US-China trade tensions escalated sharply, raising fears of weaker global growth. Despite markets recovering and a recent easing in trade tensions, this uncertainty may drag on into next year. Also, recent concerns in the Middle East around oil supply shocks is another geopolitical challenge. This reinforces our view that caution is vital amid downside growth risks and geopolitical uncertainty.

Protecting your portfolio from near-term risks*

Investors should therefore review their portfolios to ensure proper diversification. Although we don't like bonds in general due to their poorer prospective returns, high-quality bonds still can play a role in buffering your wider portfolio during short-term volatility. Meanwhile, as tempting as it may be to sell everything, we see merit to maintaining one's equity exposure while getting more defensive within the allocation. **Defensive strategies like low-volatility equity investing** (see page 14) can help.

Volatility creates opportunities for the long term

Meanwhile, any short-term volatility triggered by geopolitical concerns could create buying opportunities for astute, long-term investors.

In our view, equities still offer higher potential returns than bonds and cash in the long run.

While we favour investing in global equities as a block, we marginally favour Asian equities due to their relatively attractive valuations and higher potential growth rates.

However, portfolio discipline and resilience is more important than ever and any equity strategy needs to be a "patient" one, with horizons of a year or more.

Revisit your bond allocation*

While high-quality bonds play a key role in any resilient portfolio, we expect continued low returns for government and investment grade corporate bonds. We see more potential in local currency Emerging Markets debt and Asian high-yield bonds.

In our view, it's not quite the beginning of the end yet.

In the next few pages we've identified **four key themes** that we think will prove especially important over the coming months.

Investment themes

1



Don't overreach on risk in the short term

2



Invest for the long term amid volatility

3



Consider low-volatility equity strategies

4



Include "safe haven" assets in your portfolio

*Please refer to Endnote 1 to 4 in Endnotes section for additional information.

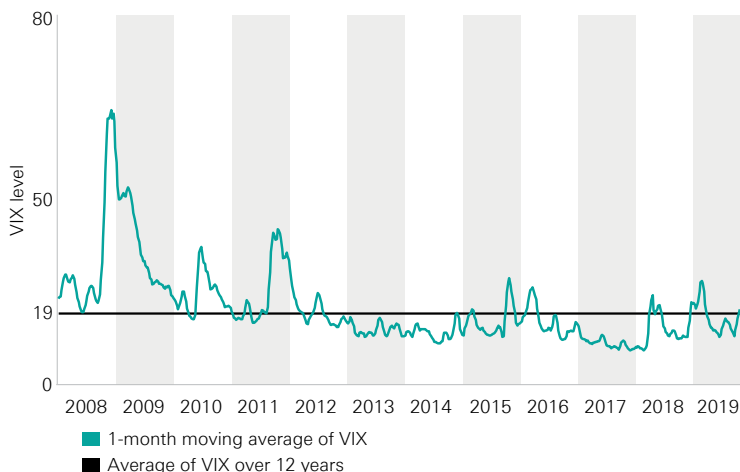


Theme 1

Don't overreach on risk in the short term

The volatility index VIX (1-month moving average)

After the recent spike, volatility is still in line with its 12-year average



Source: Refinitiv Datastream, data as of 30 Sep 2019. Investment involves risks. Past performance is not indicative of future performance. For illustrative purpose only. Note: equity volatility is represented by Chicago Board Options Exchange S&P 500 Volatility Index. Data shows volatility index movement for rolling 1-month moving average to smooth outliers.

Volatility is set to continue*

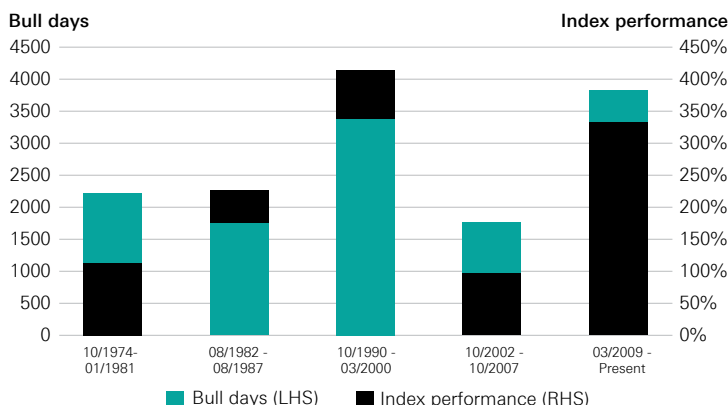
Geopolitics and trade tensions have already cast a shadow over markets and the global economy, putting pressure on growth and corporate fundamentals. We expect volatility to continue, making portfolio resilience more important than ever.

Volatility levels may have spiked in recent months but when viewed in perspective, they are in fact not much higher than historical levels. One could argue that the low volatility in equity markets over the past few years has been the exception rather than the rule.

While we think volatility is set to continue, we don't believe this signifies the beginning of the end. Why? Central banks and governments have shown a willingness to stimulate the economy, with the Fed leading the way in cutting interest rates.

Major bull markets since 1970

The current bull market is the longest on record



Source: Refinitiv Datastream, data as of 30 Sep 2019. Investment involves risks. Past performance is not indicative of future performance. For illustrative purpose only. Note: bull market performance is measured by S&P 500 index. A bull market is typically characterized by a stock market rise of at least 20% from its previous low.

Short-term risk: be cautious

We believe now is not the time for overly aggressive positioning, as the global economy is vulnerable to geopolitical uncertainties such as trade tensions and oil shocks.

The US recovery is now the longest in history and no one knows how much further this expansion can go. That's why aligning your investment strategy to your risk tolerance is more important than ever. It allows you to stay invested and participate in the equity market without stretching your comfort zone unduly.

*Please refer to Endnote 1, 4 and 6 in Endnotes section for additional information.

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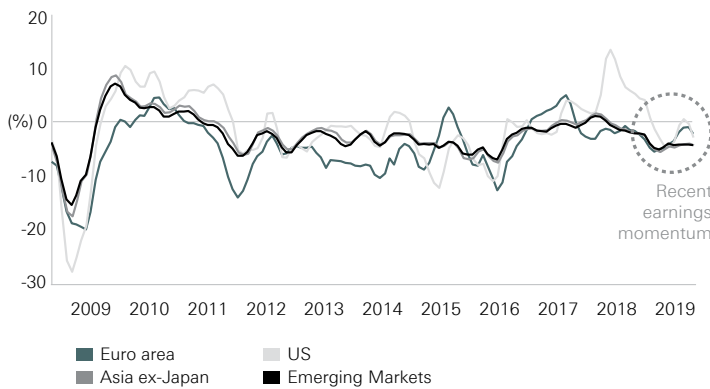


Theme 2

Invest for the long term amid volatility

Earnings momentum since the 2008 financial crisis (3-month moving average)

Corporate earnings have started to slow



Source: Refinitiv Datastream, data as of 30 Sep 2019. Investment involves risks. Past performance is not indicative of future performance. For illustrative purpose only. Indices used: S&P 500 Index (USD), EURO STOXX 50 Index (EUR), MSCI AC Asia Pacific ex Japan Index (USD), and MSCI Emerging Markets Index (USD). Earnings momentum is calculated by the 12-month-forward pro-rata number of Earning per share (EPS) estimates up or down since last month for all companies in the database within the market, in a 3-month moving average to smooth outliers.

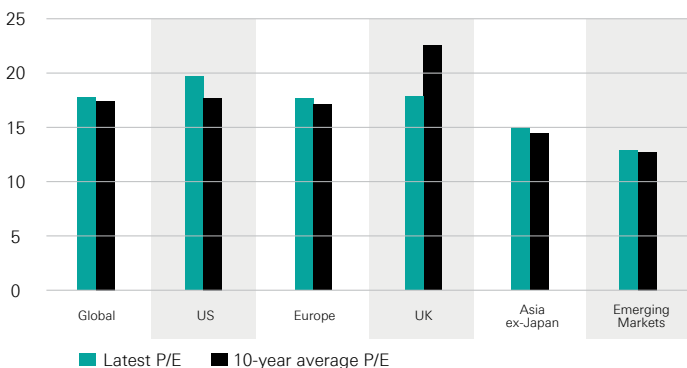
Slower growth needn't signal a recession*

Global growth continues to face headwinds and market forecasters have downgraded GDP forecasts again¹. However, with central banks taking appropriate measures to sustain growth and stabilise national economies, our key investment views remain unchanged – namely that we prefer equities over bonds. We are, however, keeping a cautious watch on corporate fundamentals, especially around profitability.

Earnings growth has decreased notably in recent months, and the general conclusion is that, outside of the US, corporate earnings have been disappointing.

Price-to-Earnings ratio (P/E) relative to the 10-year average

Most equities valuations remain in line with long-term average



Source: Bloomberg, data as of 23 Sep 2019. Investment involves risks. Past performance is not indicative of future performance. For illustrative purpose only. Indices used: MSCI AC World Index (USD), S&P 500 Index (USD), EURO STOXX 50 Index (EUR), FTSE100 Index (GBP), MSCI AC Asia Pacific ex Japan Index (USD), and MSCI Emerging Markets Index (USD).

Note: the P/E ratio is a common ratio used for valuing companies, calculated by a company's share price divided by the company's earnings per share.

Volatility creates opportunities in the long term*

In the long term, global equities still offer more attractive returns than bonds and cash - especially following the recent rally in bonds (where yields fell). On the back of a still-growing global economy, we're comfortable with continued investment in equities as part of a well-diversified multi-asset portfolio.

Valuations in global equities are still reasonable. The latest P/E ratio for global equities remains in line with the 10-year average. In our view, policy support can also help to offset headwinds from more modest global growth, trade tensions and political uncertainties.

¹ In July, the International Monetary Fund (IMF) lowered its global growth projections for 2019 and 2020 to 3.2% and 3.5% (from 3.3% and 3.6%), respectively.

*Please refer to Endnote 1, 2, 4 and 6 in Endnotes section for additional information.

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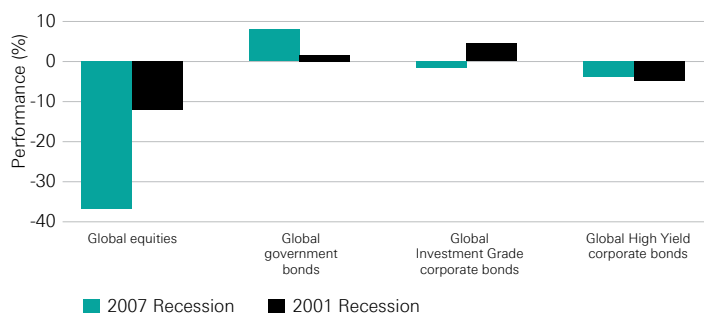


Theme 3

Consider low-volatility equity strategies

Asset class performance during US recessions

Historically, high-quality bonds as an asset class have held up well in an economic slowdown



Source: National Bureau of Economic Research (NBER), Bloomberg. Data as of Dec 2007-Jun 2009 and Mar 2001-Nov 2001. Investment involves risks. Past performance is not indicative of future performance. For illustrative purpose only. Note: Asset class performance is represented by different indices - Global Equities: MSCI ACWI Net Total Return USD Index (USD). Global Government Bonds: Bloomberg Barclays Global Agg Treasuries TR Index. Global High Yield Corporate Bonds: Bloomberg Barclays Global High Yield Corporate TR Index. Global Investment Grade Corporate Bonds: Bloomberg Barclays Global Agg Corporate TR Index.

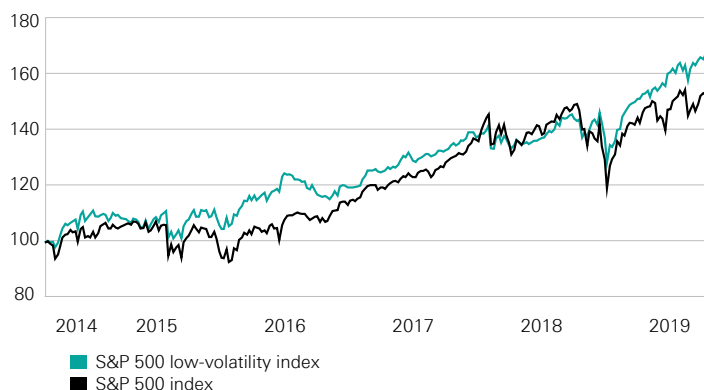
Diversify broadly, and be selective*

Although the global economy is still growing, we expect the pace of growth to be moderate. In the case of equities therefore, we advocate a broad, diversified allocation across geographies and sectors, combined with a gentle defensive angle (e.g. a low-volatility equity strategy).

Investors with full exposure to equities should consider transitioning to a multi-asset strategy to benefit from risk diversification. Multi-asset strategies ensure that capital is always allocated appropriately to a specific risk tolerance. In other words, leaving the heavy lifting to the experts!

S&P 500 Low-volatility versus S&P 500

Low-volatility equity strategies are useful in volatile times



Source: National Bureau of Economic Research (NBER), Refinitiv Datastream, data as of 30 Sep 2019. Investment involves risks. Past performance is not indicative of future performance. For illustrative purpose only. Indices used: S&P 500 Low Volatility Index and S&P 500 Index (USD), rebase to 100.

Add quality to reduce volatility

In an economy vulnerable to jittery sentiment and short-term shocks, a low-volatility equity strategy can offer some protection. These strategies often provide attractive dividend yields that compound effectively over the long term.

“Quality stocks” tend to outperform during a recession. Look for those with high profitability, healthy earnings, low financial risk and a focus on strong cash flow generation. Historically, such strategies have outperformed the stock market during sell-offs while offering comparable, although sometimes lower, returns during market rallies.

*Please refer to Endnote 1, 3, 4 and 6 in Endnotes section for additional information.

4

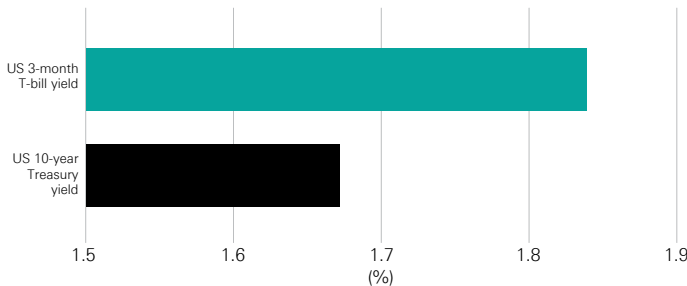


Theme 4

Include “safe haven” assets in your portfolio

10-year Treasury yield v.s. 3-month T-bill yield

Higher yields in short-dated bonds



Source: Refinitiv Datastream, data as of 30 Sep 2019. Investment involves risks. Past performance is not indicative of future performance. For illustrative purpose only. Indices used: US benchmark 10-year Datastream Government Index, US Treasury bill rate - 3 month (USD)

Short-dated bonds may offer comfort*

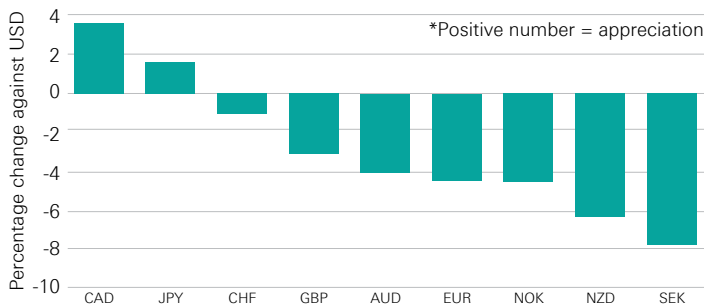
Trade rhetoric and shrill headlines have been the norm for the last 18 months, and their impact has been noticeable around the world.

In these conditions, allocating a portion of one’s portfolio to short-dated, high-quality bonds can give investors a degree of comfort, as well as the confidence to include equities elsewhere in their portfolios.

In the US, yields on short-duration bonds have improved, allowing investors who are concerned about interest rate risks to achieve comparable returns to 10-year Treasuries.

G10 currency performance year-to-date

Despite the Fed rate cuts, the broad USD remains strong



Source: Refinitiv Datastream, data as of 30 Sep 2019. Investment involves risks. Past performance is not indicative of future performance. For illustrative purpose only. Note: currency performance is measured against USD by percentage change, and positive number indicates appreciation in the currency.

Not all currencies are created equal*

Be aware how currency exposure can affect your portfolio’s performance - especially in the coming months when geopolitics and central bank activity may well impact FX markets. Aside from all this, currency risk is something every investor should consider when investing outside their home territory.

We’re still bullish on the US Dollar because of its higher yield and “safe-haven” qualities. The fact is, even against the backdrop of a trade war and the likelihood of further interest rate cuts, we still see strength in the US economy.

Historically, other safe-haven currencies like the Japanese Yen or Swiss Franc have gained from short-term volatility by attracting risk-averse investors.

*Please refer to Endnote 1, 2, 4, 5 and 6 in Endnotes section for additional information.

At a glance

Amid downward pressures on global growth, it makes sense to invest with caution. But equities still have a role to play in a diversified, multi-asset portfolio.

While a further deterioration in global growth is possible, central banks and policymakers are taking robust and effective steps to offset the challenges.

A diversified, multi-asset portfolio strategy can help to smooth the journey for investors in volatile times, through carefully calibrated exposure to a range of asset classes.

HSBC Perspective

Q&A: Asset allocation challenges in an uncertain world*



Hussain Mehdi
Macro and Investment Strategist
HSBC Global Asset Management

1. Given current macro and geopolitical uncertainties, why isn't cash the best option?

The surprise escalation in US-China trade tensions in early August, and the resultant worries around economic growth, have weighed on the performance of risky asset classes. This comes at a time when global growth faces headwinds from a downturn in the industrial cycle and heightened political uncertainty.

At this point, investors might be tempted to move their assets into cash. However, we also need to bear in mind the way different securities are priced. The expectation of further rate cuts by the Fed and other central banks has generated a substantial rally in core government bonds, significantly widening the valuation gap in favour of equities over bonds*.

With the global economy so vulnerable to shocks, it makes sense to be more cautious and defensive on a tactical, near-term basis (e.g. 3 to 6 months). But given relative valuations, risky asset classes still look very attractive (see Chart 1) for the long term (over a year). We're therefore maintaining a pro-risk position in multi-asset portfolios, while remaining watchful and alert to the evolving risks.

2. What would make you change the above position?

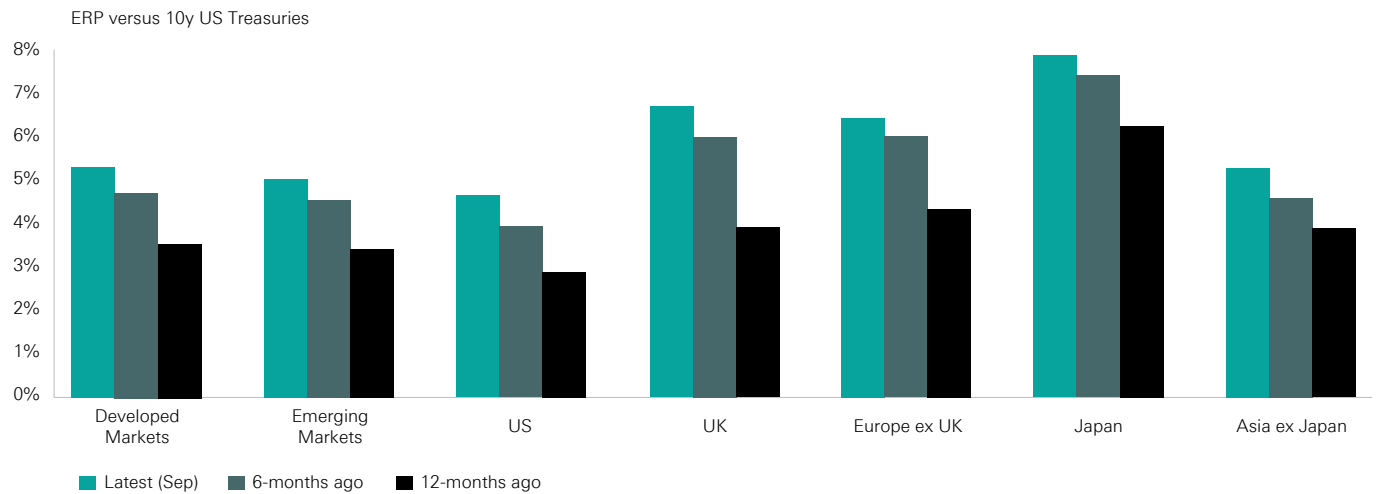
A further significant deterioration in global growth or corporate fundamentals could compel us to adopt a less pro-risk stance. It's possible that the downturn in global industry and cooling labour markets may weigh on the services sector (currently a bright spot in the global economy).

*Please refer to Endnote 1, 2 and 4 in Endnotes section for additional information.

Chart 1:

The valuation gap between equities and bonds continues to widen

ERP = equity risk premium (excess return of holding equities versus risk free rate - in this case 10y Treasuries)



Source: Bloomberg, HSBC Global Asset Management, as of Sep 2019. Investment involves risks. Past performance is not indicative of future performance. For illustrative purpose only. Note: equities are represented by different indices: MSCI World Index, MSCI Emerging Markets Index, MSCI US Index, MSCI Europe ex UK index, MSCI Japan Index, and MSCI Asia ex Japan Index.

Corporate profitability has proven disappointing in a number of regions, particularly Asia. We’re monitoring both of these issues closely, but still believe on balance that we’re witnessing a “cyclical slowdown”, rather than a more severe recessionary environment.

Importantly, we believe global policymakers have ammunition to offset challenges. Low inflation gives global central banks room to ease policy. There is also scope for more fiscal easing in China, while in Europe, Germany has softened its stance on potential loosening and the UK government has signalled a large spending programme and tax cuts*.

3. How can investors shelter multi-asset portfolios from equity market corrections?*

As we’ve discussed, multi-asset investors face several key risks right now. The good news is that a diversified, multi-asset investment strategy can help. Multi-asset funds allow carefully calibrated exposure to a range of economic, regional and financial market factors, helping to smooth the journey for investors.

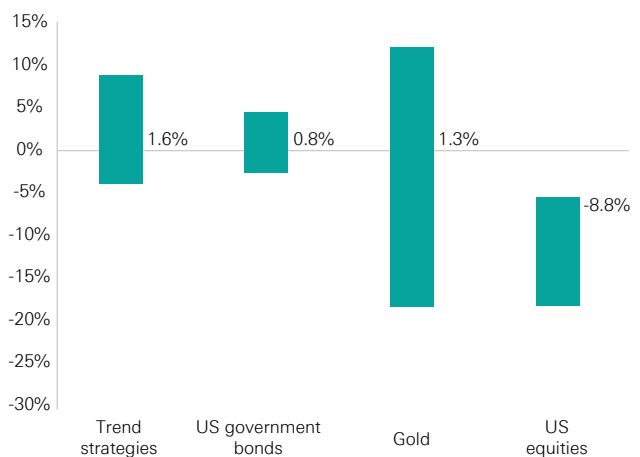
The traditional “safety” asset class is, of course, government bonds. But since a large number of “govvies” now offer negative yields and many yield curves are inverted, a key question is: can long-term bonds still be a good diversifier?

Instead, we favour more “complex diversification” within a portfolio. This means widening your allocation into asset classes like Asian corporate credits, Emerging Market bonds, asset-backed securities, as well as more conventional “safety” assets like short-duration¹ government bonds. We’re also increasingly looking at alternative asset classes that potentially offer a higher excess return, like “trend strategies” (also known as “managed futures”) which take long (buy) positions on securities whose prices are trending

Chart 2:

Range of returns on market sell-offs (1987-2017)

When equity markets fall, government bonds, gold and trend strategies provide downside protection



Source: Bloomberg, HSBC Global Asset Management, as of Sep 2019. Investment involves risks. Past performance is not indicative of future performance. For illustrative purpose only.

upward and/or short (sell) positions on securities whose prices are trending downward. Historically, this strategy has shown a low correlation with other asset classes. It has also provided positive excess returns when traditional asset classes, like bonds and equities, displayed periods of price declines (See Chart 2).

In a low-yield bond environment, these strategies offer further diversification options to help shelter your portfolio from equity market downtrends.

Past performance is not a reliable indicator of future returns.

¹ Short-duration bonds: bonds that have a lower sensitivity to interest rate fluctuations.

*Please refer to Endnote 1, 4 and 5 in Endnotes section for additional information.

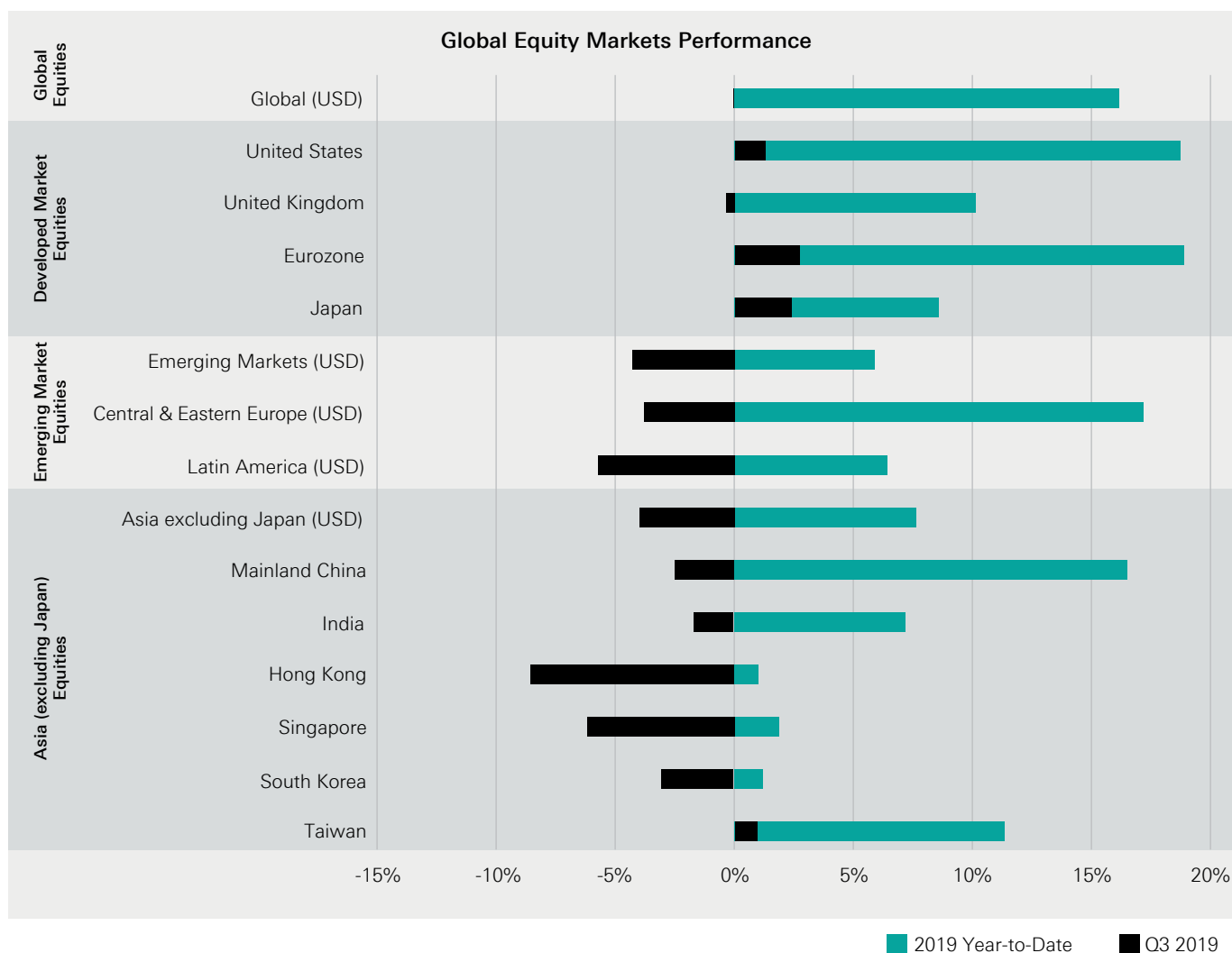
Markets Review

Equities*

Equities have been on a veritable roller coaster ride.

After a relatively calm June, the sell-off began again in early July as disappointing data from China dragged Asian markets down. Another notable underperformer was the UK, due to Brexit uncertainties.

Continuing its roller coaster ride, equities markets rallied again in September following continued rhetoric from authorities about their willingness to stimulate the economy. The Fed and ECB both acted in September, with the Fed cutting rates again and the ECB doing the same while also initiating an open-ended QE programme.



*Please refer to Endnote 3 and 4 in Endnotes section for additional information.

Investment involves risks. Past performance is not indicative of current or future performance. Source: Bloomberg, 30 Sep 2019.

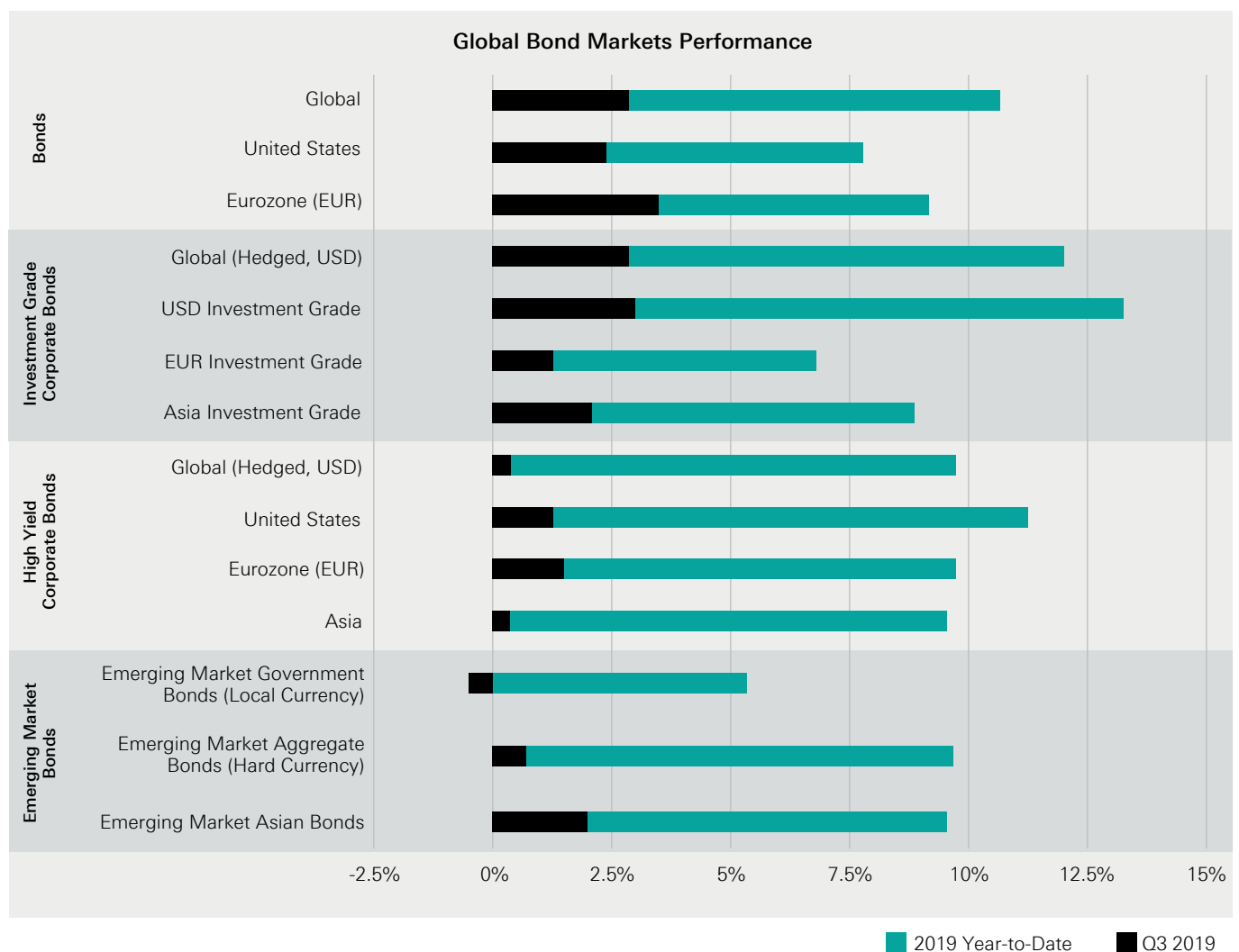
Note: total returns of asset classes are shown in local currencies, unless otherwise stated. Equities performance is represented by different Indices – Global Equities: MSCI ACWI Net Total Return Index (USD). US Equities: S&P 500 Index (USD). UK Equities: FTSE 100 Index (GBP). Eurozone Equities: EURO STOXX 50 (EUR). Japan Equities: Nikkei 225 Index (JPY). Emerging Market Equities: MSCI Emerging Net Total Return Index (USD). Central & Eastern Europe Equities: MSCI Emerging Markets Eastern Europe Net Total Return Index (USD). Latin America Equities: MSCI Emerging Latin America Net Total Return Index (USD). Asia (excluding Japan) Equities: MSCI AC Asia Pacific ex Japan Net Total Return Index (USD). Mainland China Equities: Shanghai Stock Exchange Composite Index (CNY). India equities: S&P BSE SENSEX Index (INR). Hong Kong Equities: Hang Seng Index (HKD). Singapore Equities: FTSE Straits Times Index (SGD). South Korea Equities: Korea Stock Exchange KOSPI Index (KRW). Taiwan Equities: Taiwan Stock Exchange Weighted Index (TWD).

Bonds

So far this year, the perceived “safe-haven” status of bonds has caused them to rally, despite the phenomenon of rates being ‘lower-for-longer’.

Central banks’ accommodative policy tilt (in light of slowing global growth) is likely to extend the low yields environment for longer.

Indeed, bond prices have strengthened so much that yields for US 10-year and 30-year Treasuries have stabilised and recovered from August’s lows. High-quality corporate bonds also benefited over the last quarter as the flight to quality continues, irrespective of low or relatively unattractive yields.



Investment involves risks. Past performance is not indicative of current or future performance. Source: Bloomberg, 30 Sep 2019.

Note: total returns of asset classes are shown in US dollar (USD), unless otherwise stated. Bonds performance is represented by different Indices – Government Bonds: Global Government Bond (Hedged, USD): Bloomberg Barclays Global Aggregate Treasuries Total Return Index (Hedged, USD); US Government Bond: Bloomberg Barclays US Government Total Return Index; Long-dated Treasury Bond: Bloomberg Barclays Long US Treasury Total Return Index; Short-dated Treasury Bond: Bloomberg Barclays Short Treasury Total Return Index; Eurozone Government Bond: S&P Eurozone Sovereign Bond Total Return Index (EUR); Investment Grade Corporate Bonds: Global Investment Grade Corporate Bond (Hedged, USD): Bloomberg Barclays Global Aggregate Corporate Total Return Index (Hedged, USD); USD Investment Grade Corporate Bond: Bloomberg Barclays US Corporate Total Return Index; EUR Investment Grade Corporate Bond: Bloomberg Barclays Euro Aggregate Corporate Total Return Index (EUR); Asian Investment Grade Corporate Bond: Markit iBoxx USD Asia ex-Japan Corporates Investment Grade Total Return Index. High Yield Corporate Bonds: Global High Yield Corporate Bond (Hedged, USD): Bloomberg Barclays Global High Yield Corporate Total Return Index (Hedged, USD); USD High Yield Corporate Bond: Bloomberg Barclays US Corporate High Yield Total Return Index; EUR High Yield Corporate Bond: Bloomberg Barclays Pan-European High Yield Total Return Index (EUR); Asian High Yield Corporate Bond: Markit iBoxx USD Asia excluding Japan High Yield Total Return Index. Emerging Market Bonds: Emerging Market Government Bond (Local Currency): Bloomberg Barclays Emerging Market Local Currency Government Total Return Index; Emerging Market Aggregate Bond (Hard Currency): Bloomberg Barclays Emerging Market Hard Currency Aggregate Total Return Index; Emerging Market Asian Bond: Markit iBoxx USD Asia excluding Japan Total Return Index.



Glossary

Asset class: a group of securities that show similar characteristics, behave similarly in the marketplace, and are subject to the same laws and regulations. The main asset classes are equities, fixed income, and commodities.

Asset allocation: the allocation of funds held on behalf of an investor to various categories of assets such as equities, bonds and others, based on their investment objectives.

Company fundamentals: the intrinsic value of a company as analysed by looking at its revenue, expenses, assets, liabilities and other financial aspects.

Diversification: often referred to as “not putting all your eggs in one basket”, diversification means to invest in a variety of different markets, products and securities to spread the risk of loss.

Duration: duration is a measure of the sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates. The longer a fund’s average duration, the more sensitive the portfolio is to shifts in interest rates. Duration is expressed as a number of years.

Fiscal policy: the use of government spending and tax policies to influence macroeconomic conditions such as aggregate demand, employment, inflation and economic growth.

Investment strategy: the internal guidelines that a fund follows in investing the money received from its investors.

Inflation: the rise in the general price levels of goods and services in an economy over a period of time.

Maturity: the date when the issuer of a bond or debt obligation repays the principal (the original amount invested).

Monetary policy: process by which the authorities of a country control the supply of money. This often involves targeting a rate of interest for the purpose of promoting economic growth and stability.

Quantitative easing (QE): also known as large-scale asset purchases, is a monetary policy whereby a central bank buys government securities or other financial assets from the market in order to increase the money supply and encourage lending and investment.

Volatility: a term for the fluctuation in price of financial instruments over time.

Contributors

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With many years' experience in investment banking, wealth management and financial markets, Jan-Marc has an in-depth perspective on all aspects of the industry. As Deputy Head of Group Wealth Management, he currently leads the development of our investment products, financial planning, and research & insights strategy. He is also responsible for the evolution of HSBC's wealth advisory process.

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Xian is responsible for developing thought leadership and communicating HSBC investment views for our retail banking and wealth management clients. In particular, he specialises in delivering actionable insights on the world's fast-moving financial markets. Previously, Xian was a multi-asset class fund manager at various private banks and asset managers, including HSBC Global Asset Management.

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Cynthia leads the creation and communication of relevant, timely and thought-provoking market insights for colleagues and clients around the world. Her research coverage includes macroeconomics, asset allocation, FX and thought-leadership topics. Prior to HSBC, Cynthia was a portfolio strategist and senior analyst at a number of global banks, and the Chief Investment Officer at an ultra-high-net-worth family office.

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Endnotes

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