Video Transcript

HSBC IO 2021 – October Monthly View
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In our quarterly investment outlook published in early September we were looking for somewhat slower upside for global equities and somewhat higher volatility.

And of course, that combination meant that we try to build more resilient portfolios by focusing on quality stocks, large caps and on global diversification.

Now, the increased volatility this month highlights the value of this approach, because markets continue to ask questions about economic growth, the Delta variant, Fed policy, Chinese regulation amongst other things.

And therefore, volatility may remain with us and we stick to this policy of building resilient portfolios.

Now, in our monthly view, we look at the regional news, starting with Asia. And we believe that the troubles of a major Chinese real estate company will remain an idiosyncratic rather than a systemic event.

And it is because Beijing is looking for stability of growth and the housing market is a key driver of GDP and consumer confidence. But the sector will still remain volatile and therefore requires a selective approach with a focus on the highest quality bonds. And more broadly, we overweight Asian investment grade where we also like Chinese SOE issuers.

And in Chinese equities we maintain a neutral view in spite of the attractive valuations that we now have due to the potential for continued volatility. And we favor the companies that are aligned with government policy, for example smart manufacturing, semi-conductor companies, tech hardware and the green technology value chain.

In the US the Fed meeting this week will be of major interest, and we think the statement will say that there has been more progress towards the Fed's policy goals. Therefore, opening the door to bond tapering in November or in December and the governors' forecast into so-called dots chart may signal increased risk of a rate hike in 2022. But we still believe the first rate hike will take place in 2023. So there may be some temporary and mild volatility around the meeting, but the low for longer bond yield environment does remain intact.

In Europe, the ECB meeting supports our view that the euro will continue to see some downward pressure due to the more dovish stance there than in the U.S. And the upcoming German elections seem to signal continuity, which is, of course, a positive for the equity markets, and the policy agenda should also be a positive for our sustainability theme.

And finally, in the UK, we have become more negative on Sterling due to the planned tax increase and some labor market shortages.

So in summary, globally, we think the cycle and monetary policy remain supportive and we therefore stay invested. But the potential for volatility means that we are more focused on building resilient portfolios.