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Video Transcript

HSBC Investment Outlook – May 2022 Monthly View
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In recent months, the US Treasury market movements have been the number one driver of market direction and not just for bonds, but also for stocks and currencies. The market now prices in two and a quarter percent worth of rate hikes by the Federal Reserve by the end of the year, which is above our expectations. So it's probably fair to say that we've had the bulk of the US Treasury move behind us, even though markets of course will remain vigilant on the topic of inflation for now.

So following that Treasury move, we examine this month the potential opportunities across asset classes. And first, we believe that shorter dated corporate bonds are a good place to be, both in the emerging markets and in the developed markets, following some spread widening and that large number of rate hikes that is already priced in. That includes shorter dated investment grade, high yield and emerging market, hard currency, corporate bonds. We also upgrade Australian and New Zealand bonds because the yield there has picked up and we find it an attractive entry point.

In the currency market the US dollar has been well supported by the anticipation of rate hikes, but we now foresee less further upside for the US dollar going forward, except against the Euro and the Yen. We think that sterling will start to stabilise and we upgraded to neutral view. And we continue to be bullish on a range of commodity currencies, including the Australian, New Zealand and Canadian dollar, the Indonesian Rupiah and the South African Rand.

Now turning to equities, you will know that we balance growth versus value stocks, but tactically speaking we think that value stocks should have benefited more from the rising Treasury yields. So we think that in the short term there is an opportunity to tactically add to value stocks to balance the style exposure of portfolios. Adding dividend stocks can be a good way to do this, because high dividend payers are usually value stocks rather than growth stocks. And sector wise, our equity exposure remains balance between cyclicals and defensives, except in Europe, where we upgrade healthcare and downgrade industrials to make our exposure mildly defensive.

Now, we have been looking for an opportunity to increase our exposure to Chinese equities because of their attractive valuations, but economic activity and earnings growth will be negatively affected by the COVID 19 related lockdowns, which will also affect regional and global supply chains. We believe that Chinese policy measures will ultimately help economic activity to accelerate, but we think this is more likely to happen in the third quarter than in the second quarter, and we therefore delay the timing of our potential upgrade of Chinese stocks. In the meantime we continue to focus on ASEAN countries, where we are seeing good momentum in their economy and in their markets.

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