Video Transcript

HSBC Investment Outlook – March 2022 Monthly View
Willem Sels Video

Market volatility has picked up in recent days on the back of rising geopolitical tensions around Ukraine. Historically, such events lead to weaker equity markets, good support for more defensive sectors and, of course, for safe havens such as the US dollar and gold.

The main point to watch in this crisis are energy prices, because if they stay at these elevated levels for a long time, it could feed through into wage inflation and therefore force central banks to hike interest rates even more than markets currently expect.

But that's the risk scenario because historically, the effect of geopolitical events on markets is relatively short lived and a solution or even just a stalemate in the conflict typically leads to a quick rebound, and that's why we should not overreact.

Fundamentally, economic growth does face some headwinds, but we think recession risk remains relatively low. Well established companies were able to beat expectations in the latest earnings season, and the markets have already adjusted to the thought of six rate hikes by the Fed this year.

So while we take somewhat less risk this month, we don't exaggerate. We cut Eurozone equities and government bonds from the periphery to an underweight, due to the policy tightening by the ECB and the sensitivity of Europe to the conflict. Given the slowing momentum we also reduce our US equity overweight somewhat.

So what do we focus on in this environment, to try to balance the economic growth, the rates and the risk outlook? First, in equities, we think it's important to balance growth versus value stocks, as we've been doing for several months. The high oil price should benefit our overweight in energy stocks and should of course also accelerate countries' transition to clean energy.

We like quality stocks because companies with this label can maintain their margins even when inflation is on the rise. And we think that the conflict will highlight the need for a theme of total security, which includes cybersecurity.

Now investors, of course, also look for income. We think that the short-dated parts of the high yield spectrum provides one of the best risk return trade-offs in the fixed income market, and we also continue to overweight EM hard currency, corporate bonds.

Dividend strategies can provides additional income, and their addition to portfolios is particularly powerful when you combine it with the quality label. And we point out that high volatility, of course, can create opportunities to generate income as well.

Now, in our model portfolios, we have moved some more money into hedge funds, which can benefit from the current elevated volatility while also providing much needed diversification. And in the year to date, hedge funds have shown that they can help limit portfolio drawdowns when risk appetite takes a hit.