

HSBC Global Private Banking – April 2023 Monthly View

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The past few weeks have been very volatile. But thankfully, concerns over a potential liquidity crisis in the banking sector have been addressed quickly and decisively by central banks and bank's regulators. Banks' capitalisation remains strong, and in sharp contrast with what happened in 2008, loan losses are very low. So it is right in our view, but it's still comforting, that volatility has started to ease again. Nevertheless, we think that the recent turmoil is making investors more aware of some of the risks. Even before the turmoil, we had already seen some weakness in housing markets in a number of countries, and slowing credit growth, as a result of the series of rate hikes that we've seen to date. Now, although the market is now expecting fewer rate hikes by central banks, the risk is that the increase in funding costs going forward will come from another source, namely through the tightening of financial conditions in the markets, or from tightening in bank lending standards. And that could weigh on economic growth, and pose challenges to weaker borrowers.

Now, what does this mean for investors? Well, we've been focusing on quality assets for some time, and this will become even more important now, given the tightening of financial conditions. In the bond market, that means that we continue to prefer investment grade bonds over high yield. We think credit spreads of solid issuers of senior bank bonds have widened too much and we like to lock in the attractive yields on investment grade bonds more in general. In equities, our focus on quality means that we pick stocks from established companies with manageable leverage and proven current cash flows. Earnings will be cut further, of course, but although economic growth should be lacklustre in the US and Eurozone for the rest of the year, we do not foresee outright recessions. As a result, we are comfortable with a balance between cyclicals and defensives, and a balance between growth and value stocks. And that's because, after all, this remains a stock pickers' market, because sector and style performance will probably see erratic flip flopping without much direction. Volatility strategies, of course, can exploit these ups and downs, and allow investors to generate some income or provide some downside protection. And lastly, we stick to our overweight in Asia because we think that China's fundamental economic improvement should soon start to show in earnings and in economic data. And that will be the trigger, we think, for the next leg up in Asia's equity market performance.