

# Think Future 2024

Your guide to the  
global investment landscape

January 2024

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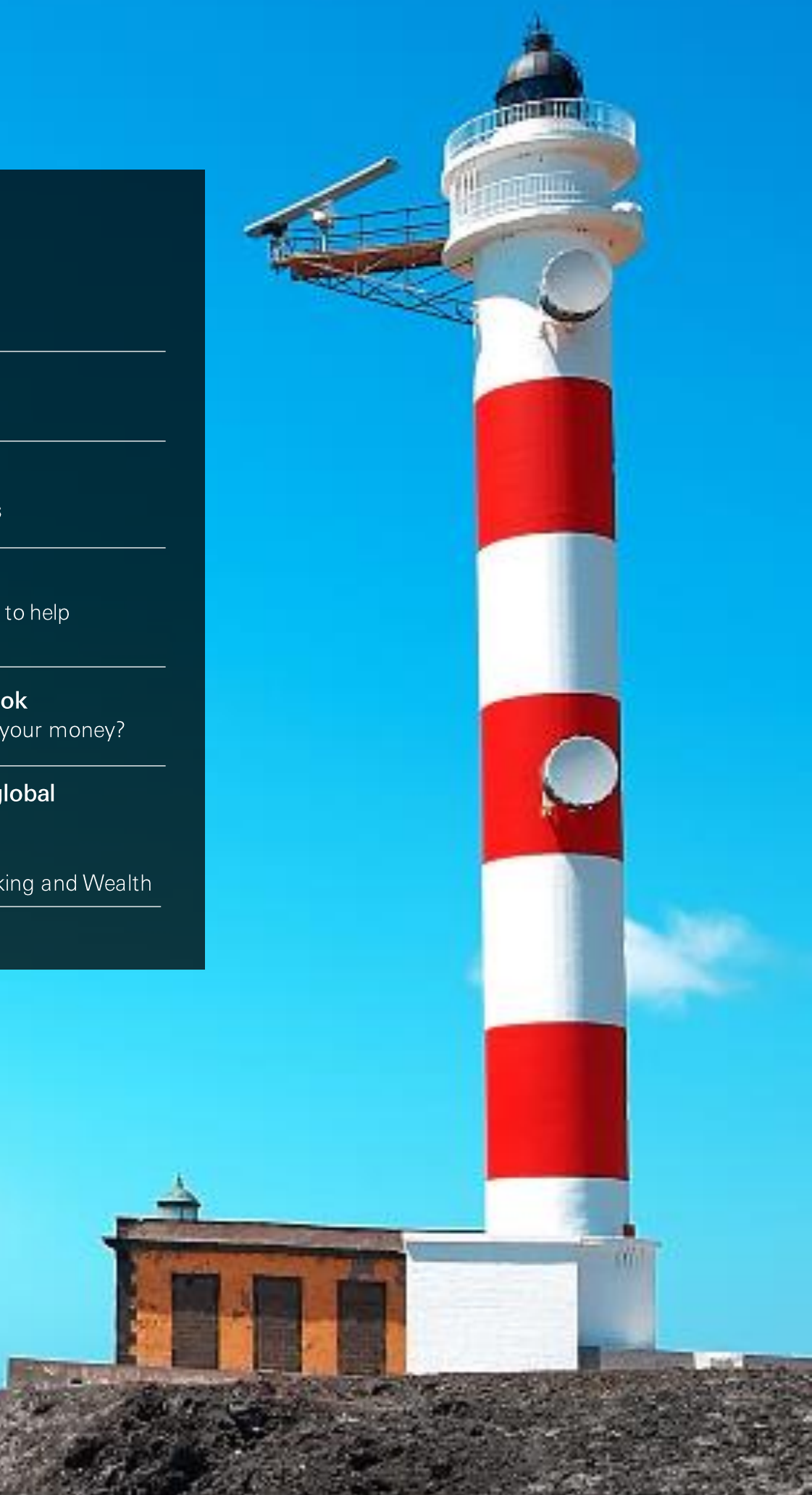
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By James Cheo  
HSBC Global Private Banking and Wealth

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# Navigating a complex world through quality assets and structural opportunities

**The financial markets have experienced another eventful year, from the collapse of Silicon Valley Bank in the first quarter to the geopolitical conflict in the Middle East in October. Moreover, central banks' aggressive rate hikes have sent bond yields to multi-year highs and made financial conditions more challenging.**

As we look ahead to 2024, we see two positive drivers on the horizon. The number one challenge of rate hikes in major economies is finally fading away. The other positive is that the US economy appears to be heading for a soft landing, mitigating the risk of a global recession. These developments should allow financial markets to breathe a sigh of relief.

However, Europe is teetering on the brink of recession and China's property sector will continue to weigh on global economic growth, while lingering geopolitical tensions and a busy election calendar in 2024 promise further bouts of market volatility. What should investors do in this complex environment?

## **Positioning for a mild acceleration of growth in the second half of 2024**

Although global growth will be relatively slow, it remains positive with a full-year GDP growth forecast of 2.3% for 2024. In fact, we expect a mild acceleration in the second half of 2024 because falling inflation should help drive consumption, while the expectation of rate cuts led by the US in Q3 2024 should support investment and boost margins. What's more, we see long-term structural trends turning into attractive opportunities.

## **Setting sail on the right course**

Bond yields remain at attractive levels but tight financial conditions, slow growth and heightened geopolitical risks have led us to maintain our preference for high-quality bonds. What has changed from the last quarter is that government bonds of medium-to-long duration in developed markets look more attractive, as do Indian local currency bonds given their compelling yields, diversification benefits and India's growth prospects.

In the equity market, we prefer quality large-cap companies because they can generally withstand higher rates and market uncertainty better. Earnings potential will become a key metric for stock selection. Geographically, the US offers solid fundamentals and structural opportunities, such as the re-industrialisation trend and rapid innovation. That should allow companies in the technology, industrials, consumer discretionary and healthcare sectors to surprise positively on earnings.

In Asia, growth momentum in India and Indonesia remains strong. In addition, we expect earnings in the Asian tech sector to bottom out soon, and South Korea should see a broad-based recovery in 2024 as the global tech cycle improves.

A focus on quality and fundamentals has served us well in 2023 and we feel the same will be true going into next year. But we see many opportunities that we want to capture and believe that the beginning of the year is always a good time to review your portfolio. We hope our investment themes will help you achieve your investment and protection goals.

Best wishes for a successful investment journey in 2024.



**Willem Sels**

Global Chief Investment Officer,  
HSBC Global Private Banking and Wealth

# Key data to watch

We expect economic growth in the West should bottom in Q1, followed by a mild acceleration

	GDP		Inflation	
	2023f	2024f	2023f	2024f
World	2.5	2.3	6.5	5.9
US	2.3	1.4	4.1	3.2
Eurozone	0.5	0.5	5.6	3.0
UK	0.5	0.5	7.3	3.1
Japan	1.8	0.8	3.2	2.2
Mainland China	5.2	4.9	0.5	1.6
India	6.2	5.8	5.4	5.0

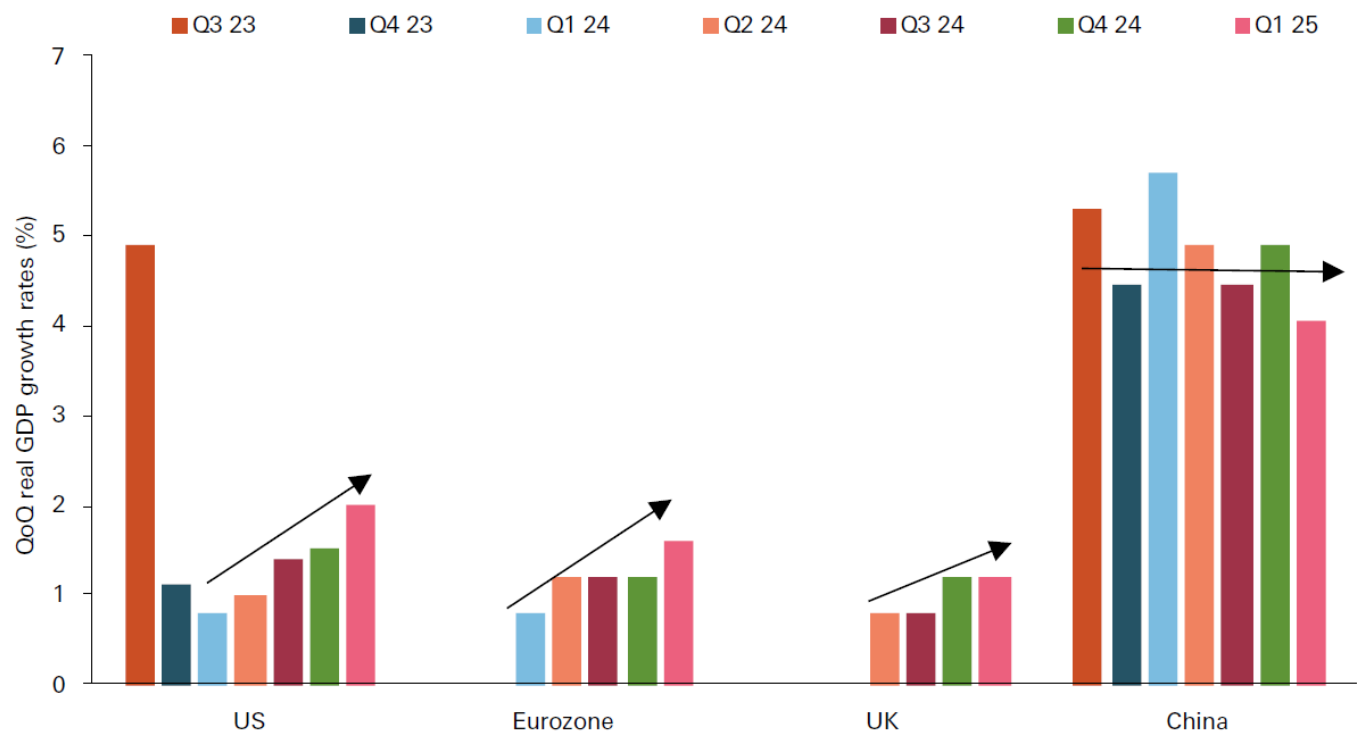
Source: HSBC Global Research as at 22 November 2023. Estimates and forecasts are subject to change. India inflation forecasts are fiscal year.

Valuations look more attractive for 2024 across markets and sectors, which are positive for equities

Market	P/E		Industry Sector (USD)	P/E	
	2023	2024		2023	2024
US	20.8	18.7	Materials	15.3	14.0
Mexico	12.2	11.8	Industrials	18.2	16.5
Brazil	8.3	7.8	Consumer Discretionary	19.5	17.6
Eurozone	13.8	13.0	Financials	11.0	10.4
UK	10.8	10.2	Information Technology	29.5	24.8
Hong Kong	13.0	11.6	Communications Services	19.1	16.5
Mainland China	10.8	9.4	Real Estate	22.6	21.1
Japan	16.2	14.4	Healthcare	19.8	17.0
Singapore	11.5	11.3	Consumer Staples	19.3	18.1
South Korea	17.5	10.4	Utilities	14.3	13.5
India	21.6	19.0	Energy	9.3	9.2

Source: Refinitiv, HSBC Global Private Banking as at 21 November 2023. Past performance is not a reliable indicator of future performance. Forecasts are subject to change.

Although growth is low by historical standards, we foresee better growth in H2



Source: Bloomberg, HSBC Global Private Banking as at 1 November 2023. Past performance is not a reliable indicator of future performance.

# Global calendar

Key events – first half of 2024			
Jan 13	Taiwan presidential election	Mar 21	BoE policy decision
Jan 25	European Central Bank (ECB) policy decision	Apr 11	ECB policy decision
Jan 31	Federal Open Market Committee (FOMC) policy decision	May 1	FOMC policy decision
Feb 1	Bank of England (BoE) policy decision	May 9	BoE policy decision
Feb 14	Indonesia presidential election	Jun 6	ECB policy decision
Mar (date TBC)	The 15th National People’s Congress of the Chinese Communist Party	Jun 12	FOMC policy decision
Mar 7	ECB policy decision	Jun 13-15	G7 summit
Mar 17	Russia presidential election	Jun 20	BoE policy decision
Mar 20	FOMC policy decision		

# Three investment themes to help shape your portfolio

## 1. Optimise bond returns with quality and duration

We believe central bank pauses will lead to a rate plateau, with the US Federal Reserve likely to start cutting in Q3 2024 and the European Central Bank and the Bank of England following later. Amid a high-for-longer rate environment and slow growth in developed markets, we favour investment grade bonds as they're better able to navigate tight financial conditions and heightened geopolitical risks.

Solid US economic data and concerns over increased issuance of US Treasuries to fund the government deficit have pushed up yields for long maturities and made their valuations more attractive. We've therefore extended our duration positioning across developed market government bonds to medium-to-long in order to lock in attractive yields before they come down.

Indian bonds, ranging from government and quasi-sovereign bonds to high-quality credit, are another bright spot given India's solid economic growth and stable currency outlook. The inclusion of Indian bonds in a key global emerging markets benchmark index is expected to attract an influx of USD20 billion, supporting bond valuations. In addition to offering more compelling yields than their counterparts in most developed and emerging markets, Indian bonds provide investors with access to a relatively uncorrelated and large emerging market.

- We look to longer maturities of up to 7-10 years in US Treasuries and UK gilts. For corporate bonds, we maintain our preference for investment grade credit and maturities of 5-7 years.
- We favour Indian local currency bonds for yield enhancement and diversification.

## 2. Focus on large-cap stocks with attractive earnings potential

The US economy is more resilient than most other markets, and that should remain the case in 2024 thanks to cooling inflation and the end of rate hikes. These trends support equity valuations and improve companies' profit margins. S&P 500 company earnings are projected to rise by 5.3% y-o-y in Q4 2023 and 12% y-o-y in 2024. As a result of these tailwinds, US equities remain our biggest portfolio overweight, while Europe is yet to see a rebound.

Fundamentally, we remain bullish on Asia but the divergence in growth has led us to favour India and Indonesia above all. Both enjoy a positive structural growth outlook, favourable demographics and strong domestic consumption. India has been one of the best performing equity markets in 2023 with strong GDP and earnings growth expectations. Indonesia remains our top pick in the ASEAN region, given its attractive valuations, improving balance sheets and robust capex growth, reflecting stronger corporate confidence. South Korea should perform well as the global technology cycle improves.

Overall, we prefer quality large-cap companies with strong balance sheets and low debt levels. We believe they can deliver on or even exceed earnings expectations amid a global growth slowdown and market uncertainty.

- We continue to prefer US over European stocks and overweight Asia ex Japan equities, particularly India, Indonesia and South Korea.
- In Latin America, Mexico is benefitting from US re-onshoring activities, while Brazil offers attractive equity valuations.



# Three investment themes to help shape your portfolio cont.

## 3. Exploit opportunities from a broad range of sectors

Structural shifts in the US are turning into long-term opportunities. The technology revolution and AI-related developments should help create new business models, boost productivity and increase the return on invested capital. The theme of the re-industrialisation of North America is also set to benefit manufacturing and job creation, while US consumption is well supported by a strong labour market and falling inflation as disposable income rises.

We expect US economic resilience to provide support for a broader range of sectors. Innovation in US healthcare will be a key driver in reducing costs and creating demand for new products and services. Geopolitical tensions could put upward pressure on energy prices, making energy stocks a good hedge against oil supply and geopolitical risks. As technology, healthcare and consumer discretionary are expected to deliver close to an 18% rise in earnings per share in 2024, we believe a tilt towards cyclical sectors mixed with value exposure will help investors capture diverse sources of growth while mitigating short-term volatility.

Elsewhere, we're more defensive in Europe and see opportunities in healthcare driven by a boost in sentiment and sales expectations around new pharmaceutical products. Asia also offers pockets of secular growth because of its huge population and leadership position in e-commerce and semiconductor manufacturing.

- **We like technology and energy in all regions and favour consumer discretionary, financials, industrials and healthcare (US and global).**
- **We favour both consumer discretionary and staples, as well as communications services in Asia, and healthcare in Europe.**

# Regional market outlook

## Where should you invest your money?

### ▲ United States



The US economy remains resilient thanks to a strong labour market, while falling inflation is leaving households with more money to spend. Government stimulus programmes are bringing manufacturing and research & development back. Moves like this should support activity in areas like healthcare, engineering and robotics, which are being further boosted by advances in AI. All of this should help counter the headwind of high interest rates, as shown by the outperformance of US stocks against other markets in 2023. We think high-quality USD bonds are attractive as the Fed appears to have completed this cycle of interest rate hikes and is likely to start cutting in Q3 2024.

### ▼ Eurozone

### ▶ UK



Eurozone countries are either in recession or close to it and the region's high interest rates, volatile energy prices and proximity to the wars in the Middle East and Ukraine may continue to weigh on sentiment. Hence, we prefer the US equity market over the Eurozone. The UK equity market is also somewhat better placed than that of continental Europe due to its larger energy exposure and lower valuations. Both the UK and the Eurozone will probably need to wait longer than the US to make rate cuts since inflation is proving stickier.

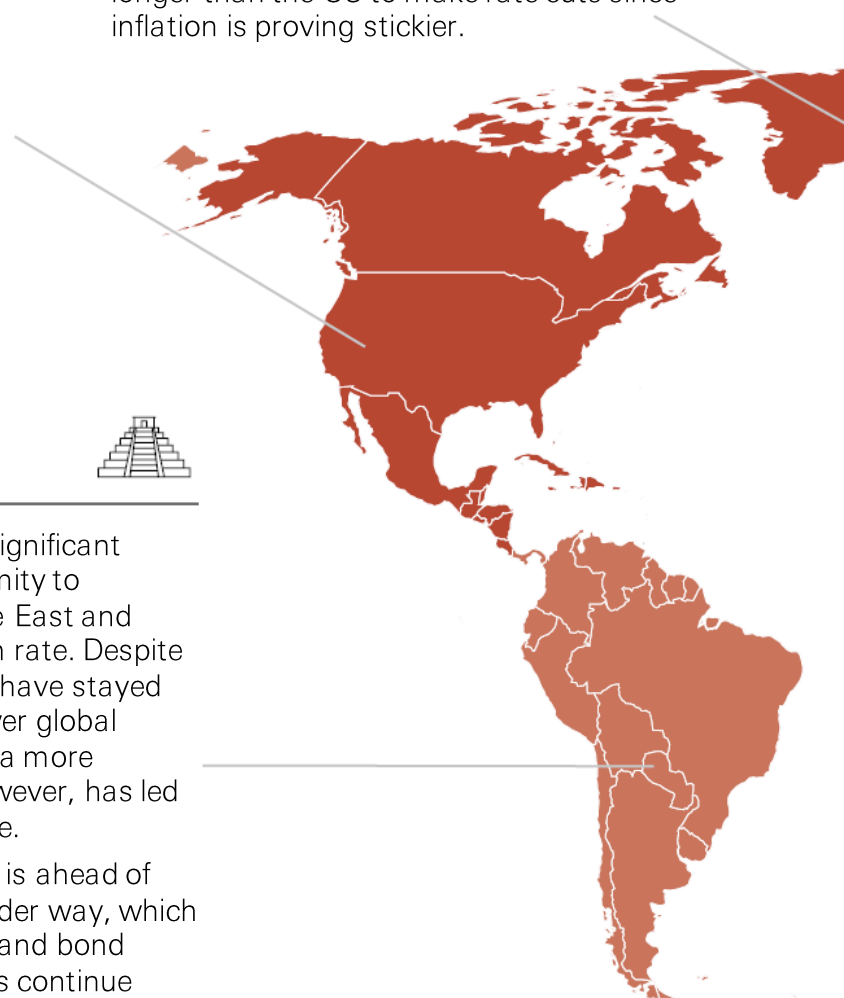
### ▼ EM EMEA

### ▲ EM Latin America



EM EMEA economies are facing significant headwinds because of their proximity to the devastating wars in the Middle East and Ukraine and Europe's slow growth rate. Despite geopolitical uncertainty, oil prices have stayed below recent highs thanks to slower global growth. Turkey's recent switch to a more conventional monetary policy, however, has led to a partial recovery in risk appetite.

Latin America's interest rate cycle is ahead of the US with rate cuts now well under way, which should support the region's stock and bond markets. Moreover, US companies continue to diversify their supply chains, and trade with Mexico in particular continues to grow.





## ▲ Asia (ex Japan)

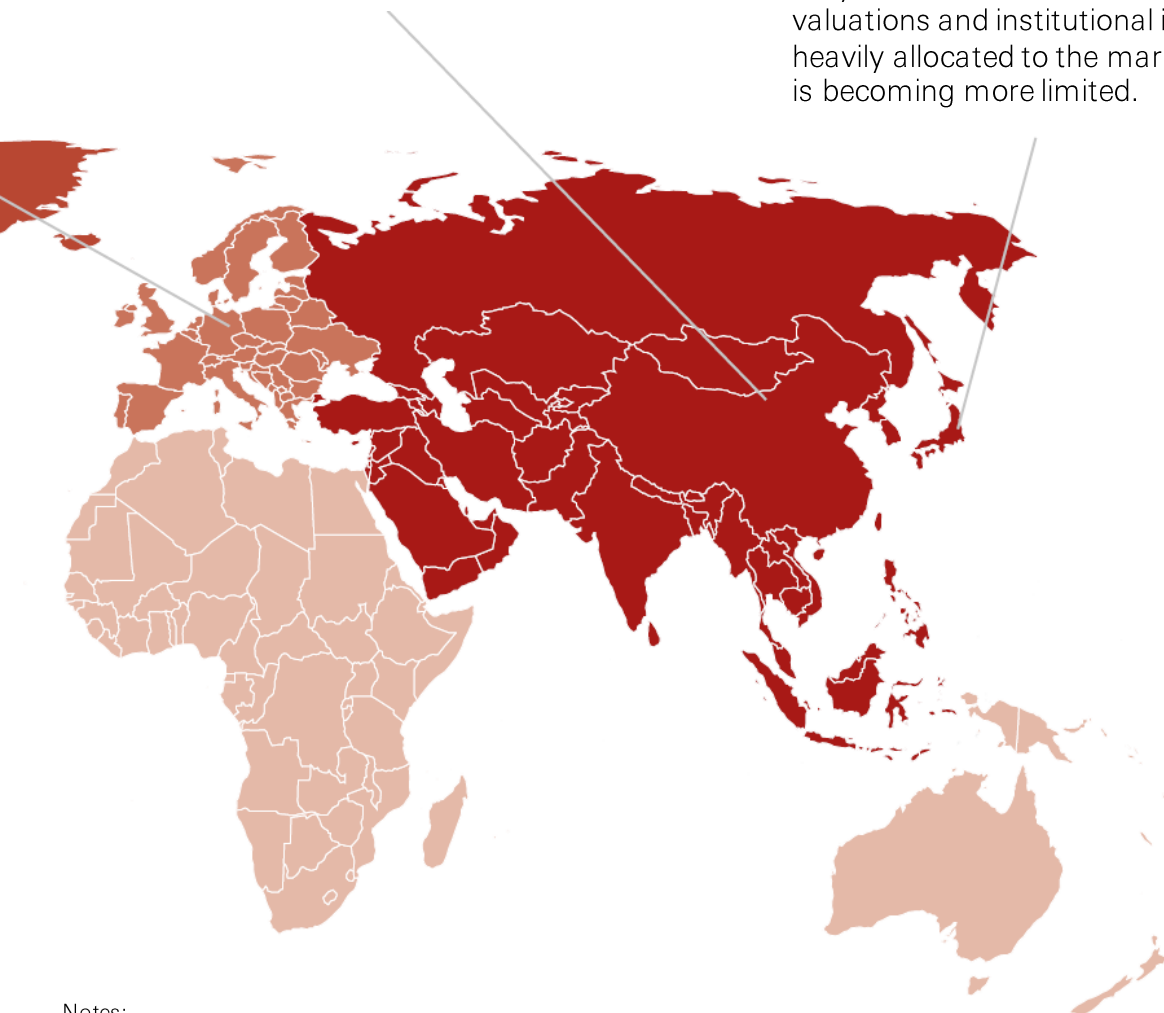


We maintain a neutral view on the mainland Chinese and Hong Kong equity markets despite their very low valuations as we think the Chinese property sector will be an obstacle to the material acceleration of economic growth and earnings. We see more positive cyclical and structural growth in both India and Indonesia, with the former benefitting from a vibrant startup ecosystem and the latter well placed in the net zero transition as an important player in the electric vehicle supply chain. Both countries, and the ASEAN region as a whole, are attracting foreign investment linked to the supply chain diversification.

## ▶ Japan



The Japanese equity market has had a strong run in 2023 to date, but largely as a result of JPY weakness, and the return in USD has not been that strong. Markets continue to second-guess the Bank of Japan's monetary policy, which has changed several times and seems to reflect only a very reluctant tightening stance. As a result, volatility of JPY, stocks and bonds may remain elevated in 2024. With high valuations and institutional investors already heavily allocated to the market, we think upside is becoming more limited.



### Notes:

The above comments reflect a 6-month view (relatively short-term) on asset classes for a tactical asset allocation. For a fulllisting of HSBC's house view on asset classes and sectors, please refer to our Investment Monthly issued at the beginning of each month.

- ▲ "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.

# India: a rising star in global investment portfolios



**James Cheo**

Chief Investment Officer  
Southeast Asia and India  
HSBC Global Private Banking and Wealth

## Key takeaways:

India's equity market has immense potential, but we advise taking a selective approach in small and mid-cap sectors because of excessive exuberance among retail investors.

Indian bonds offer high yield potential and diversification benefits, and their upcoming inclusion in a global index will boost liquidity.

Investors can navigate India's dynamic investment landscape with a balanced and diversified approach, combining equities and bonds across sectors and profiles.

India is a rising star in the global investment landscape, providing compelling opportunities across both equity and bond markets. In light of its robust economic growth, policy reforms and thriving capital market ecosystem, the world's most populous country offers strong foundations for investors to build on. Here we explore how equities and bonds can help investors ride India's upward trajectory.

### **Equities: plenty of potential but a need for a selective approach**

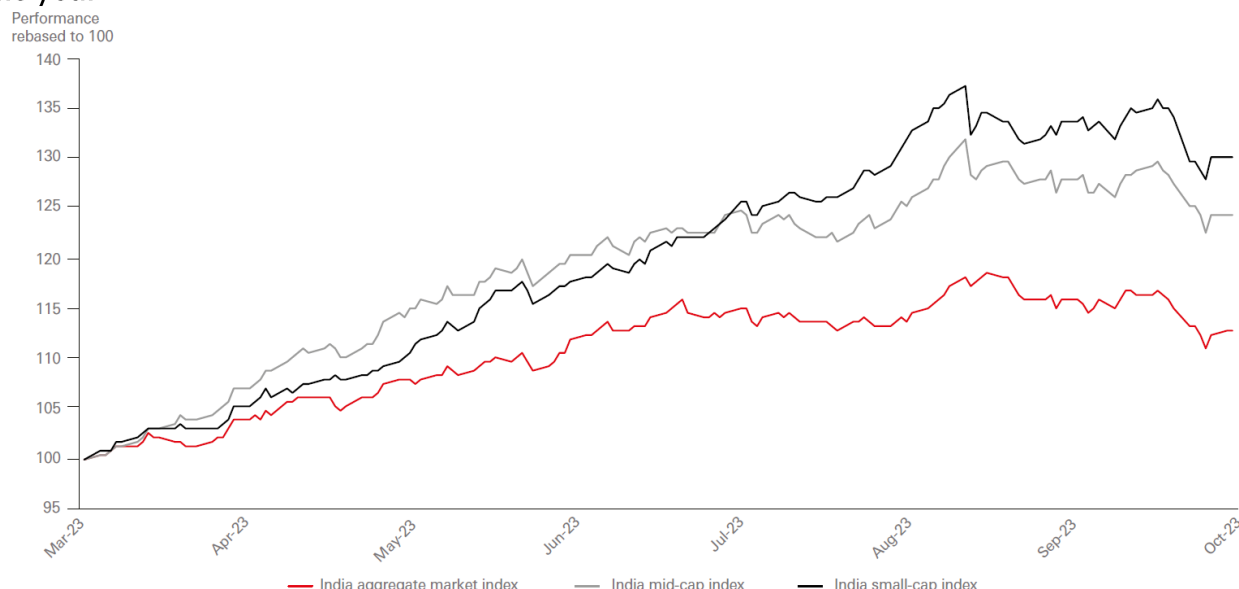
This year, India's equity market has been one of the best performing globally, driven by strong fundamentals and immense potential. For one thing, the country's economic growth – 6.9% in the last fiscal year – has consistently outpaced the global average thanks to its young and dynamic workforce, rising domestic consumption and burgeoning middle class. As a result, attractive investment opportunities abound across various sectors, including technology, healthcare, consumer goods and infrastructure.

We remain bullish on India but are monitoring indicators, such as the growth/inflation dynamics, earnings momentum, valuations, and investor flows. While we overweight Indian equities, we're becoming cautious about India's small and mid-cap sectors. To put this into perspective, the small and mid-cap indices returned 24% and 30%, respectively, from March to October, compared to about 12% for the MSCI India index over the same period.

The main driver of the steep run-up in small and mid-cap stocks appears to be sentiment driven exuberance among retail investors, whose purchase decisions are influenced by the high return expectations stemming from the extraordinarily high returns over the last six months.

India's strong macroeconomic stability after the Covid pandemic has also supported high market returns and investor confidence in the future. As a result, the

## MSCI India mid-cap and small-cap indices have outperformed MSCI India index by a wide margin this year



Source: Bloomberg, HSBC Global Private Banking, as of 31 October 2023. Past performance is not an indicator of future returns.

options market suggests record-low levels of implied future volatility.

Yet there're good reasons to be cautious and selective.

Another reason for the recent small and mid-cap rally is the low free float and lack of market depth, which means retail flows have an outsized impact on stock prices.

However, given their patchy fundamentals, we don't think small and mid-cap stocks offer decent upside potential, especially after their recent run-up. Instead, they may see a correction soon, once fundamentals catch up and investor exuberance subsides.

We continue to believe in India's structural growth story and maintain our overweight view on Indian equities, but prefer quality large-cap Indian stocks, with an eye on managing risk.

### Bonds: strong anchor for global diversification

India's bond market is steadily gaining more prominence, offering a range of instruments with attractive prospects – including government, quasi-sovereign and high-quality corporate debt – catering to different risk appetites and investment objectives.

Indian government bonds, in particular, offer higher yields than their developed market counterparts. With yields of over 7% on 10-year government bonds currently, investors can benefit from enhanced yield opportunities with relatively low risk. Indian bonds also offer diversification benefits as they've exhibited a low correlation to their counterparts elsewhere over the past decade. In addition, they help reduce portfolio volatility and

enhance risk-adjusted returns.

The inclusion of Indian bonds in a key global emerging markets benchmark index further adds to their attractiveness. This inclusion, which will take effect from June 2024, is expected to attract an influx of an estimated USD20-25 billion from index tracking fund managers, thereby increasing liquidity in the Indian bond market and consolidating its position as a viable investment avenue.

These larger inflows would also significantly ease India's ability to finance its current account deficit while alleviating downward pressure on the Indian rupee's exchange rate. In the near term, the currency is under pressure from higher US interest rates and oil prices, providing a good entry point to consider Indian bonds. Encouragingly, there has been a recent breakdown in the negative correlation between higher oil prices and the Indian rupee. Despite the run-up in oil prices, the Indian rupee has been stable. With the expected inflows into Indian bonds and the Reserve Bank of India likely to smooth the pace of depreciation, downside risks for the currency are limited.

India is becoming a more important part of global investment portfolios and a driver of the global economy. To tap into the potential of India's financial market, investors should adopt a balanced and diversified approach, combining equities and bonds across various sectors and risk profiles. Thorough research, professional advice and careful attention to market trends and regulatory changes are vital in navigating India's dynamic investment landscape.



# Glossary

**Alternative investments:** a broad term referring to investments other than traditional cash and bonds. These may include real estate, hedge funds, private equities and commodities investments, among other things. Some of these investments may offer diversification benefits within a portfolio.

**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 investing in a variety of different markets, products and securities to spread the risk of loss.

**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.

**Monetary policy:** the 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. A monetary policy whereby a central bank buys government securities or other financial assets from the market to increase the money supply and encourage lending and investment.

**Strategic asset allocation:** a practice of maintaining a mix of asset classes which should meet an investor’s risk and return objectives over a long-term horizon and is not intended to take advantage of short-term market opportunities.

**Tactical asset allocation:** an active management strategy that deviates from the long-term strategic asset allocation in order to capitalise on economic or market conditions that may offer near-term opportunities.

**Tapering:** the reduction of the interest rate at which a central bank accumulates new assets on its balance sheet under a policy of QE.

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



# Contributors



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Willem joined HSBC Private Banking in 2009 where his career has spanned Fixed Income, Investment Research, leading the UK Investment Group and most recently the role of Chief Market Strategist. He chairs the Global Investment Committee of the Global CIO Office for Private Banking and Wealth Management. Willem holds an MBA from the University of Chicago and an MSc from the University of Louvain (Belgium).



## Lucia Ku

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Ivy leads the creation of market insights, thought leadership initiatives and the delivery of an ESG-focused content strategy as part of HSBC's core investment philosophy. Previously, she launched initiatives for HSBC Premier and International in Hong Kong, connecting clients with tailored multi-channel services and initiatives for their portfolio growth.

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