Investment Monthly

January 2024

Position for rate cuts and slow but positive growth in 2024

Key takeaways

- In view of falling inflation and growth deceleration, we now expect the first rate cut to start earlier in June 2024 for the US and Europe and in August for the UK. This should support asset valuations but lower cash returns. It's therefore sensible to put cash to work in quality assets. We prefer US and Asia ex-Japan stocks, and major DM government bonds (7-10 years) and IG credit (5-7 years).
- China's Politburo meeting indicated a pro-growth stance with a strategic focus on technology and innovation, industrial upgrading and green transformation. We expect to see proactive fiscal and monetary measures that will deliver solid GDP growth of 4.9% in 2024. While remaining neutral on Chinese equities, we see select opportunities in the consumption, internet and EV sectors.
- Although 2024 is expected to be a complex year for investors, we have identified four investment themes to capture opportunities while managing market uncertainties: 1) Optimise bond returns with quality and duration; 2) Focus on large-cap stocks with attractive earnings potential; 3) Exploit opportunities from a broad range of sectors; and 4) Integrate sustainability to capture green potential. Please refer to our "Think Future 2024" for more information.

Willem Sels
Global Chief Investment Officer
HSBC Global Private Banking and Wealth

Lucia Ku
Global Head of Wealth Insights
HSBC Wealth and Personal Banking

Asset class	6-month view	Comment
Global equities	▶	While falling inflation and peak policy rates support valuations and margins, we focus on quality companies amid slower global economic growth and market uncertainty, and prefer the US, Asia and LatAm in particular.
Government bonds	▶	The current levels of yields still represent an attractive entry point and this justifies our overweight on most developed markets government bonds (except for Japan) with a preference for medium-to-long maturities.
Investment grade (IG) corporate bonds	▲	With credit spreads just close to the 5-year average, we do not take excessive credit risk and favour investment grade bonds which tend to outperform amid slow but positive economic growth.
High yield (HY) corporate bonds	▶	Global high yield remains expensive relative to both future economic prospects and to investment grade, especially in USD.
Gold	▶	Real yields and our strong USD view are challenges but uncertainties and slow global growth provide support.

▲ "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.
Icons: ↑ View on this asset class has been upgraded; ↓ View on this asset class has been downgraded.

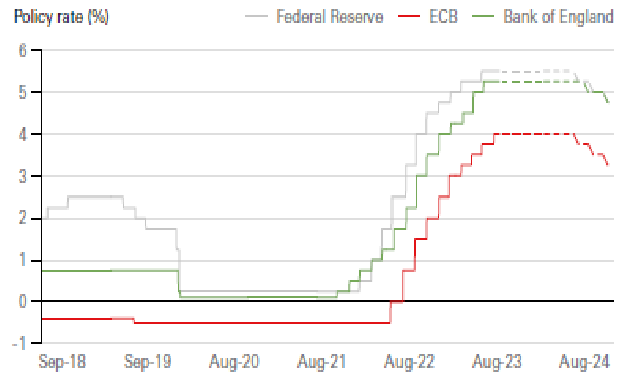
Talking points

Each month, we discuss 3 key issues facing investors

1. When will developed markets start cutting rates?

- Central banks of developed markets (DM) continued to hold policy rates unchanged in December, reaffirming our view that peak policy rates have been achieved.
- In view of further disinflation and growth deceleration, we think rate cuts will occur in 2024. However, as the Fed is now forecasting the average Fed funds rate at 3.6% in 2025, which implies an almost 2% rate cut over the next two years, we now expect the first cut in June 2024 (vs Q3 previously) with rates falling 0.75% this year. In Europe, the lower inflation backdrop has led us to also move forward the rate-cutting cycle to June. As for the UK, wage growth continues to fall but inflation is slightly stickier, so we foresee the first rate cut in Q3 2024. These cuts will weigh on cash returns.
- It therefore makes sense to put cash to work in quality stocks and bonds, as they are better positioned to withstand weaker global growth and higher capital costs. We favour US and Asia ex-Japan equities with a preference for large caps, as well as major DM government bonds (7-10 years) and investment grade credit (5-7 years).

Chart 1: Policy rates seem to have peaked and we expect rate cuts later in 2024

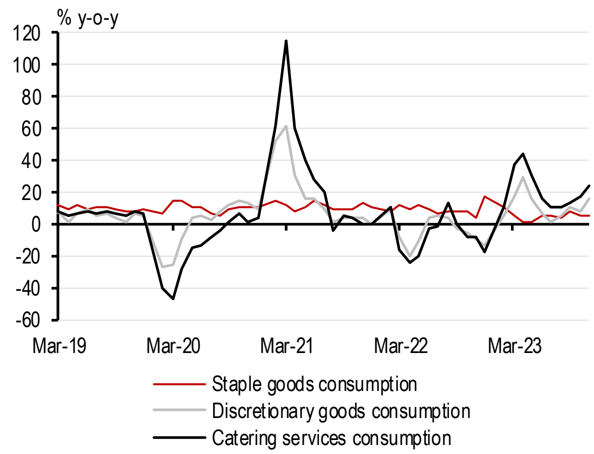


Source: Bloomberg, HSBC Global Private Banking as at 20 December 2023. Forecasts are subject to change.

2. What did China's Politburo meeting indicate?

- In the December Politburo meeting, the Chinese government exhibited its pro-growth stance with a more optimistic tone than in its July meeting, pushing for a stronger strategic focus on technology and innovation, industrial upgrading and green transformation.
- On the fiscal side, while a "big bang" stimulus package is unlikely, we expect to see ongoing bond issuance and deployment of funds for infrastructure development and maintenance, raising the official deficit to 4% of GDP in the coming years, up from 2023's 3.8%. On the monetary side, liquidity injections will be added via the medium-term lending facility (MLF), reserve requirement ratio (RRR) cuts and Pledged Supplementary Lending. The Central Economic Work Conference also pledged to provide more support for private and state-owned enterprises as well as other proactive measures (e.g. direct funding support to increase affordable housing supply) to address property market issues.
- We expect China to deliver solid GDP growth of around 4.9% in 2024. As property market stress remains a key challenge, we stay neutral on both mainland Chinese and Hong Kong equities but see select investment opportunities in the consumption, internet and EV sectors.

Chart 2: Consumption has been the pillar of China's economic recovery throughout 2023



Source: WIND, HSBC Global Private Banking and HSBC Global Research, as at 19 December 2023. Past performance is not a reliable indicator of future performance.

3. What is the outlook for 2024?

- Although the rate hike challenges in major economies are finally fading away and the likelihood of a US soft landing mitigates the risk of a global recession, slower global growth and lingering geopolitical risks, including a busy election calendar, mean that 2024 will be a complex year for investors.
- Yet, we remain positive and expect to see a mild acceleration in global growth in the second half of 2024, thanks to falling inflation which should boost consumption, while rate cuts will be positive for asset valuations and corporate earnings. We also see long-term structural trends turning into attractive investment opportunities.
- We have identified four investment themes where we see the best opportunities while managing volatility in 2024: 1) Optimise bond returns with quality and duration; 2) Focus on large-cap stocks with attractive earnings potential; 3) Exploit opportunities from a broad range of sectors; and 4) Integrate sustainability to capture green potential. The start of the year is always a good time to review your portfolio. For more information on how these themes can fit into your portfolio, please refer to our "Think Future 2024" publication and video.

Chart 3: Global economic growth is expected to slow in 2024, as is inflation in most economies

	GDP		Inflation	
	2023f	2024f	2023f	2024f
World	2.7	2.4	6.4	5.9
US	2.4	1.7	4.1	3.1
Eurozone	0.5	0.5	5.4	2.5
UK	0.3	0.6	7.3	2.4
Japan	1.9	0.8	3.3	2.6
Asia ex-Japan	4.4	4.1	2.2	2.1
Mainland China	5.2	4.9	0.2	0.5
India	7.0	6.0	5.4	5.0

Source: HSBC Global Research as at 5 January 2024. Estimates and forecasts are subject to change. India inflation forecasts are fiscal year.

Asset Class Views

Our latest house view on various asset classes

Asset class	6-month view	Comment
Global equities		
Global	▶	While falling inflation and peak policy rates support valuations and margins, we focus on quality companies amid slower global economic growth and market uncertainty, and prefer the US, Asia and LatAm in particular.
United States	▲	Continued disinflation and rate cuts should support earnings growth. Historically, US equities tend to rally well before the Fed starts cutting rates. We expect the rally to broaden beyond IT to industrials, healthcare and consumer discretionary.
United Kingdom	▶	The economy has been struggling with high costs and interest rates, leading to negative growth in Q3. Lower inflation and potentially lower rates may give more room for fiscal easing. The equity market remains relatively cheap.
Europe	▼	Weak economic activity data and slow earnings growth remain key challenges for European equities. We maintain a defensive sector positioning and favour companies in the healthcare and energy sectors.
Japan	▶	While cyclical indicators are supportive, valuations and positioning are elevated, and monetary policy is uncertain.
Emerging Markets (EM)	▶	Weaker Chinese growth, high rates and a rising USD impact EM markets to different degrees. We prefer Asia due to its positive cyclical momentum and structural growth.
EM EMEA	▼	The region is impacted by high energy prices and sluggish growth in Europe. Turkey's macroeconomic policies have improved and valuations are attractive but serious challenges remain.
EM LatAm	▲	Local rate cuts and the re-industrialisation of North America are positives. Mexico benefits from the supply chain diversification trend while valuations of Brazil remain attractive.
Asia ex Japan equities		
Asia ex-Japan	▲	Asia should remain attractive because of its improving fundamentals, strong domestic momentum in a number of markets and less inflationary pressures. India, Indonesia and South Korea are the most preferred markets.
Mainland China	▶	While the latest PMI data indicated mixed recovery momentum, proactive government policies should continue to drive a broad-based economic recovery. We prefer select opportunities in the internet, consumer discretionary, travel and Macau gaming sectors.
India	▲	The structural tailwinds from strong foreign and domestic private investments, young demographics, the technology boom and green transformation make India a bright spot to invest.
Hong Kong	▶	The weak external trade and high interest rates remain headwinds but increased cross-border activity and expected Fed rate cuts should benefit the financial services and the insurance sectors. Domestic consumption remains robust.
Singapore	▶	We see some signs of Singapore's economy bottoming out driven by an ongoing recovery in travel services and an improved trade cycle.
South Korea	▲	South Korea benefits from the AI-driven memory demand growth and DRAM price recovery. We expect to see a broad-based earnings recovery in 2024 as both the global tech cycle and global risk appetite improve.
Taiwan	▶	The equity market should benefit from the AI related themes but may see short-term volatility driven by local elections and geopolitics.
Government bonds		
Developed markets (DM)	▶	The current levels of yields represent an attractive entry point and this justifies our overweight on most developed markets government bonds (except for Japan) with a preference for medium-to-long maturities.
United States	▲	US Treasury yields have fallen from recent highs amid increased expectations of rate cuts in 2024. We nevertheless still see attractive value in long maturities and maintain our preference for 7-10 years.
United Kingdom	▲	We expect the Bank of England to keep policy rates on hold and remain positive on gilts with medium-to-long maturities.
Eurozone	▶	With the lagged impact of the rate hiking campaign yet to be fully uncovered and policy uncertainty remaining high, we prefer Eurozone sovereign with a medium-to-long duration to lock in the current attractive yields for longer.
Japan	▼	Japanese government bonds remain unattractive in our view. We expect the Bank of Japan to keep its policy rate unchanged and might exit its negative interest rate policy in Q2 2024.
Emerging Markets (Local currency)	▼	Increased volatility driven by recent fund outflows, a stronger USD and unattractive valuations warrant our underweight positioning.
Emerging Markets (Hard currency)	▶	Amid high Treasury volatility, we still find yield but remain selective, focusing on quality issuers.
Corporate bonds		
Global investment grade (IG)	▲	With credit spreads just close to the 5-year average, we do not take excessive credit risk and favour investment grade bonds which tend to outperform amid slow yet positive economic growth.
USD investment grade (IG)	▲	We prefer quality bonds for better risk-adjusted returns as yields for taking on more risks are not attractive.
EUR and GBP investment grade (IG)	▲	We favour investment grade of medium duration for better risk-adjusted returns.
Asia investment grade (IG)	▲	We focus on locking in attractive yields from quality issuers and favour Asian financials, Indian local currency bonds, Indonesian quasi-sovereign IGs, South Korean IGs, Macau gaming, and Chinese technology, media and telecom credits.
Global high-yield (HY)	▶	Global high yield remains expensive relative to both future economic prospects and to investment grade, especially in USD.
US high-yield (HY)	▶	Tight financial conditions weigh on company margins and increase the risk of defaults. We remain selective and prefer quality issuers with strong market positions and manageable debt.
EUR and GBP high-yield (HY)	▶	Economic growth momentum remains weak, and elevated rates are weighing on financing conditions.
Asia high-yield (HY)	▶	China's property related sector remains a drag on Asian high-yield bonds and we expect default rate to stay high in 2024.
Commodities		
Gold	▶	Real yields and our strong USD view are challenges but uncertainties and slow global growth provide support.
Oil	▶	In spite of production cuts, global growth concerns are weighing on oil prices.

Sector Views

Global and regional sector views based on a 6-month horizon

Sector	Global	US	Europe	Asia	Comment
Consumer Discretionary	▲	▲	▶	▲	Despite easing inflation pressures in many regions, spending remains selective, benefitting only some areas of the sector. Demand for car registrations is improving although EV demand has softened on growing frustrations over the slow roll-out of charging infrastructure outside major cities. Tourist activity is also showing some signs of a seasonal pick-up. After a disappointing Q3, luxury has seen some positive signs of growth.
Financials	▲	▲	▶	▶	Valuations remain attractive while high interest rates continue to lift profits. Although the interest rate cycle may have peaked, rates may remain elevated for some time. Regional banks face headwinds as mortgage and loan activity declines mainly due to higher interests. The capital markets business remains buoyant in selected markets with new issuance and listings driving activity.
Industrials	▲	▲	▶	▶	Sector sentiment appears to be slowly improving following weaker-than-expected Q2/Q3 results, but valuations are elevated. China's growth momentum seems to be improving as greater government support is lifting demand. US industrials are gaining momentum as reshoring, fuelled by the US's Inflation Reduction Act (IRA) and CHIPS Act, is boosting activity. Europe remains in the doldrums. Automation and related businesses are seeing a sharp improvement in orders.
Information Technology	▲	▲	▲	▲	Fundamentals continue to improve, with AI being a major catalyst for new areas of growth. Digital infrastructure and software are seeing solid activity. Strong demand for high-end semis is being driven by buoyant automation and AI as business and consumer sentiment are improving. Cloud computing and digital advertising growth remain muted.
Communications Services	▶	▶	▼	▲	US sector fundamentals remain positive, with one of the strongest earnings growth rates forecast over the next 12 months driving a strong YTD performance. The outlook in Europe, which is more focused on telecom services, remains challenging. Asia offers a more attractive risk-return profile given the low valuations and stabilising regulatory environment.
Materials	▶	▶	▶	▶	Commodity prices have stabilised with iron ore, copper and steel prices partially recovering over the last few months. For other metals, prices have been flat or negative. Sector valuations are full. Overall, the outlook has improved marginally with government capital programmes and electrification (EVs, tech and renewables) lifting demand in some areas.
Real Estate	▼	▼	▶	▼	Real estate remains in a difficult place with the dual pressures of higher interest rates and inflation hurting margins and consumers alike. Financing is expensive and default risk has increased. Construction activity remains slow, but may have troughed, with some early signs of an increase in activity from iron, steel and cement producers.
Consumer Staples	▶	▶	▶	▲	Cost margins appear secure as cost pressures have somewhat eased. The sector should benefit from strong seasonal demand with solid results going forward despite tough YoY comparables. The sector is trading in line with historical valuations. We focus on quality stocks with strong brands and more resilient pricing power.
Energy	▲	▲	▲	▲	Geopolitical risks remain high as OPEC+ has kept oil and gas supplies tight, but high prices seen in 2022, particularly in Europe, have not recurred so far. Further cuts from OPEC+ could drive prices higher. Valuations are very low relative to other sectors despite robust cash flow and stable high dividends.
Healthcare	▲	▲	▲	▼	New product launches, a less hostile pricing environment and the ebbing wave of major product patent expirations should help lift the sector after a period of underperformance. New pharma products should lift sentiment and expectations. In Asia, valuations remain elevated, trading well above historical levels.
Utilities	▶	▼	▶	▶	European and US renewable energy companies are facing headwinds on anticipated new and existing development projects as rising costs are severely eroding expected returns and projects are facing long delays in grid connections. As a result, US's IRA and Europe's green initiatives have slowed.

Important Information for Investors

This document or video is prepared by The Hongkong and Shanghai Banking Corporation Limited ('HBAP'), 1 Queen's Road Central, Hong Kong. HBAP is incorporated in Hong Kong and is part of the HSBC Group. This document or video is distributed and/or made available by HSBC Bank Canada (including one or more of its subsidiaries HSBC Investment Funds (Canada) Inc. ("HIFC"), HSBC Private Investment Counsel (Canada) Inc. ("HPIC") and HSBC InvestDirect division of HSBC Securities (Canada) Inc. ("HIDC")), HSBC Bank (China) Company Limited, HSBC Continental Europe, HBAP, HSBC Bank (Singapore) Limited, HSBC Bank Middle East Limited (UAE), HSBC UK Bank Plc, HSBC Bank Malaysia Berhad (198401015221 (127776-V))/HSBC Amanah Malaysia Berhad (20080100642 1 (807705-X)), HSBC Bank (Taiwan) Limited, HSBC Bank plc, Jersey Branch, HSBC Bank plc, Guernsey Branch, HSBC Bank plc in the Isle of Man, HSBC Continental Europe, Greece, The Hongkong and Shanghai Banking Corporation Limited, India (HSBC India), HSBC Bank (Vietnam) Limited, PT Bank HSBC Indonesia (HBID), HSBC Bank (Uruguay) S.A. (HSBC Uruguay is authorised and oversought by Banco Central del Uruguay), HBAP Sri Lanka Branch, The Hongkong and Shanghai Banking Corporation Limited – Philippine Branch, and HSBC FinTech Services (Shanghai) Company Limited (collectively, the "Distributors") to their respective clients. This document or video is for general circulation and information purposes only.

The contents of this document or video may not be reproduced or further distributed to any person or entity, whether in whole or in part, for any purpose. This document or video must not be distributed in any jurisdiction where its distribution is unlawful. All non-authorised reproduction or use of this document or video will be the responsibility of the user and may lead to legal proceedings. The material contained in this document or video is for general information purposes only and does not constitute investment research or advice or a recommendation to buy or sell investments. Some of the statements contained in this document or video may be considered forward looking statements which provide current expectations or forecasts of future events. Such forward looking statements are not guarantees of future performance or events and involve risks and uncertainties. Actual results may differ materially from those described in such forward-looking statements as a result of various factors. HBAP and the Distributors do not undertake any obligation to update the forward-looking statements contained herein, or to update the reasons why actual results could differ from those projected in the forward-looking statements. This document or video has no contractual value and is not by any means intended as a solicitation, nor a recommendation for the purchase or sale of any financial instrument in any jurisdiction in which such an offer is not lawful. The views and opinions expressed are based on the HSBC Global Investment Committee at the time of preparation and are subject to change at any time. **These views may not necessarily indicate HSBC Asset Management's current portfolios' composition. Individual portfolios managed by HSBC Asset Management primarily reflect individual clients' objectives, risk preferences, time horizon, and market liquidity.**

The value of investments and the income from them can go down as well as up and investors may not get back the amount originally invested. Past performance contained in this document or video is not a reliable indicator of future performance whilst any forecasts, projections and simulations contained herein should not be relied upon as an indication of future results. Where overseas investments are held the rate of currency exchange may cause the value of such investments to go down as well as up. Investments in emerging markets are by their nature higher risk and potentially more volatile than those inherent in some established markets. Economies in emerging markets generally are heavily dependent upon international trade and, accordingly, have been and may continue to be affected adversely by trade barriers, exchange controls, managed adjustments in relative currency values and other protectionist measures imposed or negotiated by the countries with which they trade. These economies also have been and may continue to be affected adversely by economic conditions in the countries in which they trade. Investments are subject to market risks, read all investment related documents carefully.

This document or video provides a high-level overview of the recent economic environment and has been prepared for information purposes only. The views presented are those of HBAP and are based on HBAP's global views and may not necessarily align with the Distributors' local views. It has not been prepared in accordance with legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of its dissemination. It is not intended to provide and should not be relied on for accounting, legal or tax advice. Before you make any investment decision, you may wish to consult an independent financial adviser. In the event that you choose not to seek advice from a financial adviser, you should carefully consider whether the investment product is suitable for you. You are advised to obtain appropriate professional advice where necessary.

The accuracy and/or completeness of any third-party information obtained from sources which we believe to be reliable might have not been independently verified, hence Customer must seek from several sources prior to making investment decision.

Important Information about HSBC Global Asset Management (Canada) Limited ("AMCA")

HSBC Asset Management is a group of companies, including AMCA, that are engaged in investment advisory and fund management activities, which are ultimately owned by HSBC Holdings plc. AMCA is a wholly owned subsidiary of, but separate entity from, HSBC Bank Canada.

Important Information about HSBC Investment Funds (Canada) Inc. ("HIFC")

HIFC is the principal distributor of the HSBC Mutual Funds and offers the HSBC Mutual Funds and/or the HSBC Pooled Funds through the HSBC World Selection® Portfolio service. HIFC is a subsidiary of AMCA, and indirect subsidiary of HSBC Bank Canada, and provides its products and services in all provinces of Canada except Prince Edward Island. Mutual fund investments are subject to risks. Please read the Fund Facts before investing.

®World Selection is a registered trademark of HSBC Group Management Services Limited.

Important Information about HSBC Private Investment Counsel (Canada) Inc. ("HPIC")

HPIC is a direct subsidiary of HSBC Bank Canada and provides services in all provinces of Canada except Prince Edward Island. The Private Investment Counsel service is a discretionary portfolio management service offered by HPIC. Under this discretionary service, assets of participating clients will be invested by HPIC or its delegated portfolio manager, AMCA, in securities, including but not limited to, stocks, bonds, mutual funds, pooled funds and derivatives. The value of an investment in or purchased as part of the Private Investment Counsel service may change frequently and past performance may not be repeated.

Important Information about HSBC InvestDirect ("HIDC")

HIDC is a division of HSBC Securities (Canada) Inc., a direct subsidiary of, but separate entity from, HSBC Bank Canada. HIDC is an order execution only service. HIDC will not conduct suitability assessments of client account holdings or of the orders submitted by clients or from anyone authorized to trade on the client's behalf. Clients have the sole responsibility for their investment decisions and securities transactions.

THE CONTENTS OF THIS DOCUMENT OR VIDEO HAVE NOT BEEN REVIEWED BY ANY REGULATORY AUTHORITY IN HONG KONG OR ANY OTHER JURISDICTION.

YOU ARE ADVISED TO EXERCISE CAUTION IN RELATION TO THE INVESTMENT AND THIS DOCUMENT OR VIDEO. IF YOU ARE IN DOUBT ABOUT ANY OF THE CONTENTS OF THIS DOCUMENT OR VIDEO, YOU SHOULD OBTAIN INDEPENDENT PROFESSIONAL ADVICE.

Important information on sustainable investing

"Sustainable investments" include investment approaches or instruments which consider environmental, social, governance and/or other sustainability factors (collectively, "sustainability") to varying degrees. Certain instruments we include within this category may be in the process of changing to deliver sustainability outcomes.

There is no guarantee that sustainable investments will produce returns similar to those which don't consider these factors. Sustainable investments may diverge from traditional market benchmarks.

In addition, there is no standard definition of, or measurement criteria for sustainable investments, or the impact of sustainable investments ("sustainability impact"). Sustainable investment and sustainability impact measurement criteria are (a) highly subjective and (b) may vary significantly across and within sectors.

HSBC may rely on measurement criteria devised and/or reported by third party providers or issuers. HSBC does not always conduct its own specific due diligence in relation to measurement criteria. There is no guarantee: (a) that the nature of the sustainability impact or measurement criteria of an investment will be aligned with any particular investor's sustainability goals; or (b) that the stated level or target level of sustainability impact will be achieved.

Sustainable investing is an evolving area and new regulations may come into effect which may affect how an investment is categorized or labelled. An investment which is considered to fulfil sustainable criteria today may not meet those criteria at some point in the future.

Expiry: March 31,2024 H202401003 / P2401001