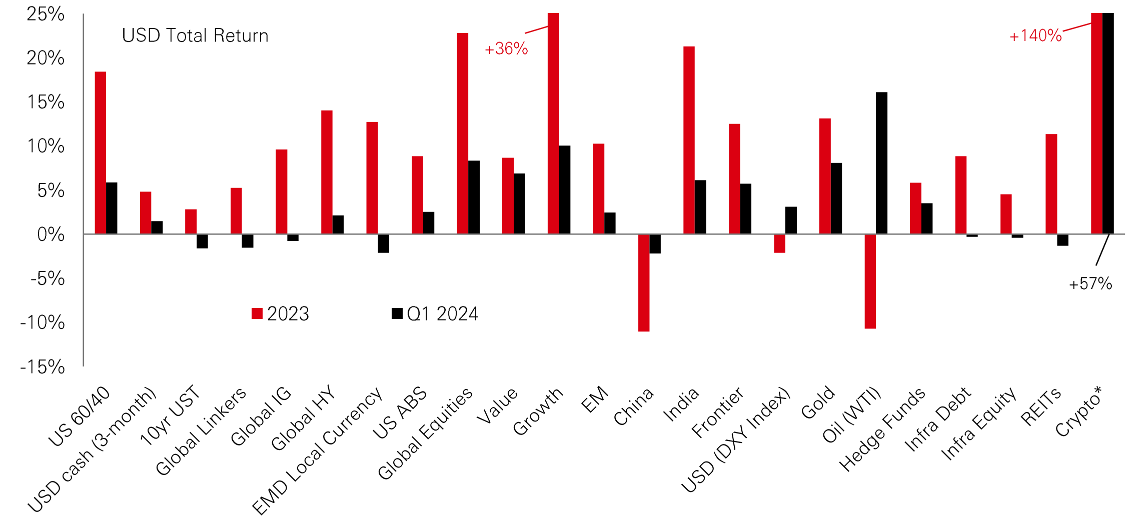
Investment Weekly

8 April 2024

Chart of the week – Looking back at markets in Q1



Q1 was a good quarter for stocks, but a tougher one for government bonds. Growing animal spirits boosted risk assets, as economic data remained broadly consistent with a soft-landing scenario. Corporate profits came in better-than-expected, with strong tech sector results and AI enthusiasm keeping quality growth stocks ahead of the pack. Crypto rallied hard, credit spreads moved to multi-year tights, and oil prices rose. And although the market priced out a number of 2024 rate cuts, central bankers are still eyeing a summer policy pivot, helping to buoy risk appetite.

Risk-on sentiment helped EM stocks. As in 2023, returns were dispersed across regions. Frontier stocks continued to perform, extending last year's trend. India continued to outpace China, as investors digested China's economic challenges and India's strong activity data. But, in a change of fortunes, Asia outperformed both LatAm and EMEA.

Meanwhile, government bonds struggled as economic resilience and signs of inflation persistence pushed out the timing of rate cuts. This supported the US dollar and gold, with the yellow metal still finding support from diversification efforts by central bank reserve managers.

In the near-term, there's no obvious macro event that will derail the bull market; risk-off catalysts are likely more behavioural. Further out, amid elevated geopolitical uncertainty and restrictive policy settings, there are still risks the soft-landing morphs into something less benign. The profits and default scenario embedded in market pricing looks optimistic.

Equity Factors →

What's the outlook for growth versus value?

Fed Outlook →

Why investors may be too hawkish on their Fed view

Credit Markets →

Why overall credit yields are helping to maintain inflows

Market Spotlight

Venturing into Venture Capital

The venture capital (VC) market endured significant turbulence in 2023, including a challenging fundraising environment, the failure of Silicon Valley Bank and limited exit market activity. Valuations have also been falling with many companies experiencing 'down rounds' where a firm raises capital at one valuation, and the next time they raise cash, it's at a lower valuation. In the US, for example, 14.2% of deals were 'down rounds' in 2023 – the highest proportion since 2017.

Despite this, we believe that it is possible to be proactive as an investor, targeting parts of the market that are likely to be better protected and experiencing rising demand. Climate tech is one such area. Policy tailwinds provide a long-term path towards innovation as a means hitting climate goals. Climate-focused technologies, such as electric vehicles, are also increasingly becoming a part of daily lives.

More generally, we believe a focus on early-stage investments will help reduce dependence on initial public offerings (IPOs) as a future exit route, leading to some protection from the volatile IPO market.

The value of investments and any income from them can go down as well as up and investors may not get back the amount originally invested.

Source: HSBC Asset Management. Macrobond, Bloomberg. Data as at 11am UK time 05 April 2024. * Crypto is represented by Bloomberg Galaxy index

Lens on...

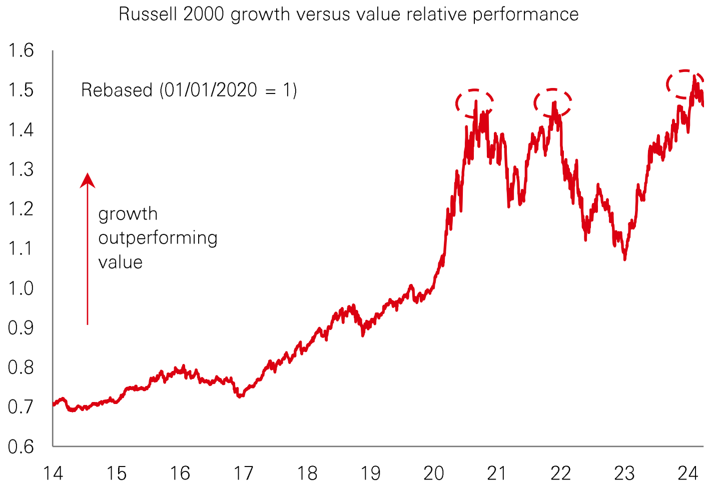
A growth/value 'triple top'

Technical analysts are on high alert with a 'triple top' formation between growth and value stock prices. Can growth stocks break this 'resistance', and keep on winning?

Stock market performance has broadened out in recent weeks, with value holding its own. That's because investors have high confidence in the economic soft landing. Laggard sectors, like materials or industrials, should catch up. Value stocks look cheap too, trading at a big discount to growth on standard metrics. And, after serial outperformance, growth could be due for profit taking.

On the other hand, if global activity deteriorates, growth stocks are the natural beneficiaries. Their profits are less exposed to macro downturns. Plus, falling bond yields should favour longer duration stocks, like growth companies.

Beyond the cyclical time frame, much will depend on where interest rates finally settle. For now, like the technical analysts, we'll be watching price action closely.

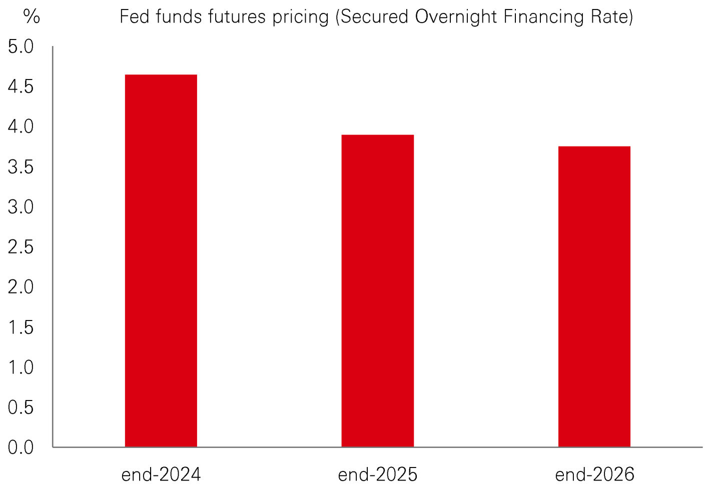


Are markets too hawkish on the Fed outlook?

When discussing the Fed outlook, investors' common question is: *'what if the Fed doesn't cut rates this year?'*. What's implicit here is little concern over disappointing growth outcomes later this year. Market pricing echoes this, at one point last week pencilling-in fewer than the three rate cuts the Fed itself expects. This means downside growth surprises could result in a meaningful pickup in volatility.

However, more importantly, the main argument given for the Fed not cutting this year is that inflation proves to be sticky, reflecting continued strong demand. This is a reasonable concern and probably the main risk to the central 'soft-ish' landing scenario. But what does it mean for 2025 and beyond?

Arguably, **tighter-for-longer policy in the near term increases the risk of a hard landing for the economy further down the road** (and significant rate cuts). Market pricing for Fed funds of around 4.00% at end-2025 and 3.75% by end-2026, therefore, simultaneously appears to be putting a low weight both on downside growth risks and upside inflation risks over the remainder of 2024.

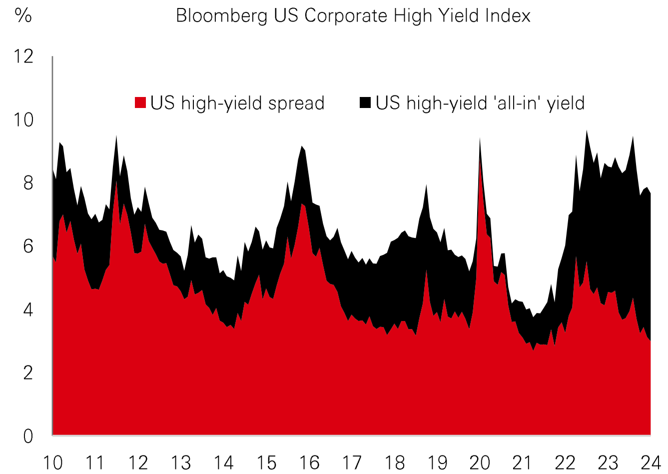


The lure of 'all-in' credit yields

Credit spreads are close to testing multi-decade lows. This weighs on expected returns over the medium-term. But what shields investors is 'all-in yields' are high. That is, much higher policy rates and government bond yields versus the 2010s means corporate bond yields are still at attractive levels. Indeed, many non-investment grade (IG) credit yields exceed historic returns from equity.

Fundamentally, a recovery in corporate profit growth in recent months has supported corporate bond markets. For IG debt, average credit quality has modestly improved with the share of A-rated debt rising at the expense of BBB-rated bonds.

For now, **the lure of all-in yields and a decent profits backdrop keeps credit supported**. But long-term valuations are expensive. This implies a selective and well-researched investment approach is required.



Past performance does not predict future returns. The level of yield is not guaranteed and may rise or fall in the future.

Source: HSBC Asset Management. Macrobond, Bloomberg. Data as at 11am UK time 05 April 2024.

Key Events and Data Releases

Last week

Date	Country	Indicator	Data as of	Actual	Prior
Mon. 1 April	JP	Tankan Large Manufacturers	Q1	11	13
	CN	Caixin Manufacturing PMI	Mar	51.1	50.9
	US	ISM Manufacturing Index	Mar	50.3	47.8
	BR	S&P Global Manufacturing PMI	Mar	53.6	54.1
	MX	S&P Global Manufacturing PMI	Mar	52.2	52.3
	CL	Chile Central Bank Interest Rate Decision	Mar	6.50%	7.25%
Wed. 3 April	CN	Caixin Services PMI	Mar	52.7	52.5
	BR	S&P Global Composite PMI	Mar	55.1	55.1
	EZ	Eurozone CPI (y-o-y)	Mar P	2.4%	2.6%
	US	ISM Services Index	Mar	51.4	52.6
	BR	Industrial production (y-o-y)	Feb	5.0%	3.7%
	US	Fed Chair Powell speech	Apr		
Fri. 5 April	US	Change in Non-Farm Payrolls (000s)	Mar	-	275
	IN	RBI Interest Rate Decision	Mar	6.50%	6.50%

P – Preliminary, Q – Quarterly **EZ – Eurozone, MX – Mexico, JP – Japan, BR – Brazil, IN – India, CN – China, CL – Chile**

The week ahead

Date	Country	Indicator	Data as of	Survey	Prior
Mon. 8 April	GE	German Industrial Production (y-o-y)	Feb	-7.1%	-5.5%
Tue. 9 April	MX	CPI (y-o-y)	Mar	4.6%	4.4%
Wed. 10 April	NZ	RBNZ Interest Rate Decision	Apr	5.50%	5.50%
	US	CPI (y-o-y)	Mar	3.5%	3.2%
	CA	Bank of Canada Interest Rate Decision	Mar	5.00%	5.00%
	US	FOMC Meeting Minutes	Mar		
Thu. 11 April	CN	CPI (y-o-y)	Mar	0.4%	0.7%
	MX	Industrial Production (y-o-y)	Mar	-	2.9%
	EZ	ECB Interest Rate Decision	Apr	4.00%	4.00%
Fri. 12 April	CN	Trade Balance (USD bns)	Mar	70.2	39.7
	IN	CPI (y-o-y)	Mar	4.9%	5.1%
	IN	Industrial Production (y-o-y)	Feb	6.1%	3.8%
	US	University of Michigan Consumer Confidence Index	Apr P	78.7	79.4

P – Preliminary **EZ – Eurozone, GE – Germany, MX – Mexico, NZ – New Zealand, IN – India, CN – China, CA – Canada**

Source: HSBC Asset Management. Data as at 11am UK time 05 April 2024.

Market review

Heightened geopolitical tensions and rising uncertainty over the US rate outlook drove risk assets lower this week. Core government bonds weakened as US Fed Chair Powell stated the Fed needs "*greater confidence that inflation is moving sustainably towards 2%*" before cutting rates, ahead of key US inflation data. US equities were on the defensive with broad-based weakness. The Euro Stoxx 50 index traded sideways whilst Japan's Nikkei 225 fell. EM equities fared better than developed markets; the Shanghai Composite Index posted decent gains in a holiday-shortened week on rising optimism that recent policy measures are gaining traction in the Chinese economy. India's Sensex index also rallied. In commodities, geopolitical tensions and continuing supply uncertainty drove crude oil prices to a six-month high. Gold prices also reached fresh all-time highs, supported by central bank demand.

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