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Video Transcript

HSBC Global Private Banking – August 2022 Monthly View
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As we've seen in recent weeks, markets are constantly reassessing the inflation, rate, growth and earnings fundamentals.

Although the latest US CPI figure was higher than expected, investors are hoping that inflation will peak soon, in part because commodity prices have started to ease. Bond markets are therefore pricing in lower medium and long term inflation, and slightly fewer rate hikes than they did a month ago. This supports our view that markets have largely priced in the likely inflation and rate path, and of course it is benefiting fixed income, with investment grade bonds remaining our largest overweight. More stable bond markets are also helping growth stocks rebound a bit and we therefore maintain our balanced exposure between growth stocks and value stocks.

The flipside of this rate and inflation picture is a weaker growth picture. Economists continue to downgrade their GDP forecasts, and analyst earnings expectations are coming down. Analysts are now finally making more downgrades than upgrades, but we think this process has somewhat further to run. The earnings season will have plenty of evidence of CEOs talking about margin pressure, the hit to consumers' spending power, the impact of FX movements and so on. So we continue to focus on quality stocks that can protect their margins, and we continue to take a defensive sector stance.

The somewhat lower commodity prices are good news for most of the portfolio, but they will make it more difficult for commodity currencies to outperform. So we've decided to close our bullish view on commodity currencies and move them back to neutral. Within equities, we are closing our overweight on Singapore and Indonesia, two markets that have been relatively resilient, and we reallocate into Hong Kong and the US. Our geographical preference in equities remains for the US, and also for Asia, but more selectively there.

Overall, we continue to focus on portfolio resilience, quality, diversification and differentiation. Our overweights in investment grade and hedge funds are key to diversify our continued neutral exposure to equities. And while we're comfortable that the market has priced in enough rate hikes to be overweight on investment grade, we don't yet have that confidence on consensus earnings expectations to be chasing the current stock market bounce.