

HSBC Global Private Banking – May 2023 Monthly View
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Risk appetite has rebounded in recent weeks, driven by a number of factors. First, the concerns over banking sector stress have faded, thanks to interventions by central banks and regulators. This has allowed financial conditions to normalise again, and volatility to drop. Secondly, inflation has continued to fall, which means that the market is now just looking for one further rate hike from the Fed. And thirdly, China's reopening is happening faster than markets expected, and this is now showing in the hard data. All of these are clear positives for risk appetite.

Among them, though, the expectation that policy rates will peak soon has been the main driver of risk sentiment. Clearly, it is supporting bonds, and our big overweight position in investment grade. It has also been the main driver of equity momentum recently, and has boosted valuation multiples. But much of this move in rate expectations is now in the price, and therefore we think we need to increasingly focus on earnings, and companies and areas of the market where earnings are resilient. Unsurprisingly, given the weaker economic momentum and negative earnings revisions, quality stocks have continued to outperform. Sector-wise, we see good earnings potential in industrials, capital goods, technology and areas such as automation and AI. That makes our sector allocation a bit more cyclical than before, but we are fine with this because cyclicals have cheapened significantly compared to defensives in recent months. From a geographical perspective, when we look for resilient earnings, we're naturally directed towards Asia, and we maintain our big overweight in Mainland China, while also maintaining a positive outlook on ASEAN countries and Hong Kong. The US remains a market with many quality stocks and therefore we have a small overweight there. In Europe, we're moving out of Switzerland into the UK, for valuation reasons, and because we think the UK's cyclical momentum has bottomed. In the Eurozone, we favour the core – including Germany and France – over the periphery – such as Italy and Spain, as we want to position for stronger exports to China and limit the implications of higher loan costs.

We maintain our weak dollar view, which results from the imminent end of Fed rate hikes, reduced tail risks and more constructive global risk appetite. Putting everything together, our underweight in cash, neutral allocation to global equities, and overweight on high quality credit and hedge funds, reflects a mild risk-on stance. But we focus on companies, sectors and geographies with the best earnings potential, and that should allow us to weather the effects of the slow economic momentum in developed markets, especially as we do not foresee a severe downturn.