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VIDEO TRANSCRIPT

Outlook for Global Markets with Georgios Leontaris & Nicolas Budry

Hello,
Welcome to Occur Video Interview. I am Georgios Leontaris, CIO for HSBC Global Private Banking and today I will present you our Outlook for Global Markets with Nicolas Budry, our Head of Advisory who will show you how to implement our high conviction calls in diversified portfolios.

Markets have been shifting and turning since the start of the year. Early in the year, risk appetite bounced sharply, after a very weak 2022, and that lifted global equities across geographies with cyclicals outperforming defensives and growth stocks recovering some of last year's losses. But there has been some retracement of the gains recently, and we've also seen plenty of flip-flopping and volatility because there are many issues, of course, on which investors cannot make up their minds and the Western economies are still slowing down.

In regards to the recent market events, I wanted to highlight with you four different points:

1. We believe that a systemic banking crisis remains unlikely

- Liquidity backstops from the Fed, ECB and SNB substantially reduce tail risk of a systemic banking crisis.

- Loan delinquencies remain very low while capital adequacy ratios of banks stay high in the US and Europe.

- Flight to safety will continue to widen return dispersion between Big Banks and small-to-mid-sized banks.

- Financial conditions are tightening, and may limit growth. Cost of capital will remain high. Business confidence may be impacted as we have seen with the disappointing Zew survey in Germany.

2. We expect a higher volatility environment and more return dispersion

- We expect to see further shifts and turns in markets amid major central bank policy transition and lingering geopolitical uncertainty.

- We believe idiosyncratic events and fundamental divergence will keep market volatility and return dispersion high.

3. We are close to the peak in interest rates

- Inflation is falling at last in the developed markets, we are approaching the end of the Fed rate hike cycle.

- Easing inflation and rising concerns about financial market stability cause central banks to turn more cautious in policy tightening.

- We expect the Fed will stop hiking rates by the end of H1 2023 and will deliver three 25bp rate cuts from Q2 to Q4 2024. High for longer. No imminent rate cut.

4. China and Asia stand out

- In contrast to the developed markets slowdown, China's faster-than-expected recovery and further policy easing after the NPC (National People's Congress) lifts Asia's growth and earnings and also reduces global recession risk.

- We believe markets still underestimate the upside potential from China's speedy consumption-led recovery.

In summary, we believe we face softer economic conditions, a slowing growth but no recession, tighter financials conditions but the worst part may be over and we should avoid a banking crisis and systemic risks.

Nicolas, how can we position portfolios to benefit from this new market environment and accordingly to our views.

Thank you Georgios,

It's all about quality. Given the overall economic picture, we believe that our diversified portfolios have to be positioned in the best segments within Fixed income, Equity and Alternatives.

1. We keep a strong Focus on Global Investment Grade Bonds

- The banking turmoil prompts central banks to turn more cautious in policy tightening, the peak rate is approaching fast. We strongly focus on quality. We stay bullish on Global IG bonds and lock in attractive yields by extending IG bond duration to 5-7 years maturities. We've extended our investment grade bond duration to 5-7 years as we approach that peak of the interest rate hike cycle. And we've moved our USD view from bullish to bearish due to peak rates, a bottoming of global growth expectations and improving global risk appetite.

- Fixed maturity proposition. These funds allow us to lock-in a specific yield, known in advance. We have launched a strategy maturing in 2026 and will soon propose a new fund which will end in September 2027. Clients will be able to lock in rates and if these were to go down. We expect 10 year yield in France to settle at 2.50% by year end.

- Now there is a bearish aspect to our rate outlook too, unfortunately. Although rates should peak soon, we're very unlikely to see Fed rate cuts till Q2 2024. The longer rates stay high, the longer the stress on highly levered borrowers, because each day more and more loans need to be reset and bonds need to be refinanced. This is a key reason why we look for quality in all asset classes: we prefer investment grade over high yield.

2. Regionally, our equity positioning favours China and Asia over Developed markets

- China is reopening faster than expected. China's strategic policy pivot back to growth support our full overweight on China and EM equities. We expect near-term consolidation in DM equities due to economic downturn and banking turmoil. We position for outperformance of China and Asian stock markets versus their DM peers. Our allocation to China and actually Asia more broadly has moved to the largest overweight in several years.

- China's reopening is being underestimated by markets. We have observed in other countries how sharply consumption can spike in a post-COVID reopening. And what's more, Chinese consumers have accumulated almost 1 trillion USD of excess savings during the zero COVID period, and much of which they will be eager to spend. So we therefore primarily execute our full overweight on Chinese stocks through consumer related themes such as e-commerce and hospitality, entertainment and travel, geographically speaking, Thailand and Indonesia should benefit from increased Chinese travel too. The acceleration of Chinese growth should go beyond the reopening, and we view the policy shift back to growth as strategic in nature, and that should support our Asian high conviction themes and some key industries such as advanced manufacturing and clean energy.

3. Thirdly, we implement risk diversification to mitigate uncertainties

- Market volatility will stay elevated amid the banking turmoil and geopolitical uncertainty. We attach stronger emphasis on risk diversification via overweight on hedge funds, strategic allocation to private markets and tactical volatility strategies.

- We continue to like hedge funds, especially developed market macro and multi-strategy approaches, because volatility, of course, provides hedge funds with a rich opportunity set. Now the other way we deal with uncertainty is by focusing on a limited number of key views that we can have conviction in, whilst we take a more neutral stance or smaller positions where there is less visibility.

- But our risk-on position still remains selective because we fully expect continued market volatility around important economic data releases and central bank meetings. And geopolitical issues and volatile energy prices, of course, can feed through into market volatility too. We can manage that uncertainty through portfolio diversification and through volatility strategies which can help generate income or provide downside protection.

So in summary, our focus is on investing in quality assets, select areas of conviction and key long term themes such as the energy transition, infrastructure, aerospace, AI and automation.

And that approach, we believe, allows us to remain invested, but also to manage some of the volatility and the unpredictable.