

Q4 / 2024

# HSBC Perspectives

Shaping your investment portfolio



HSBC

Opening up a world of opportunity

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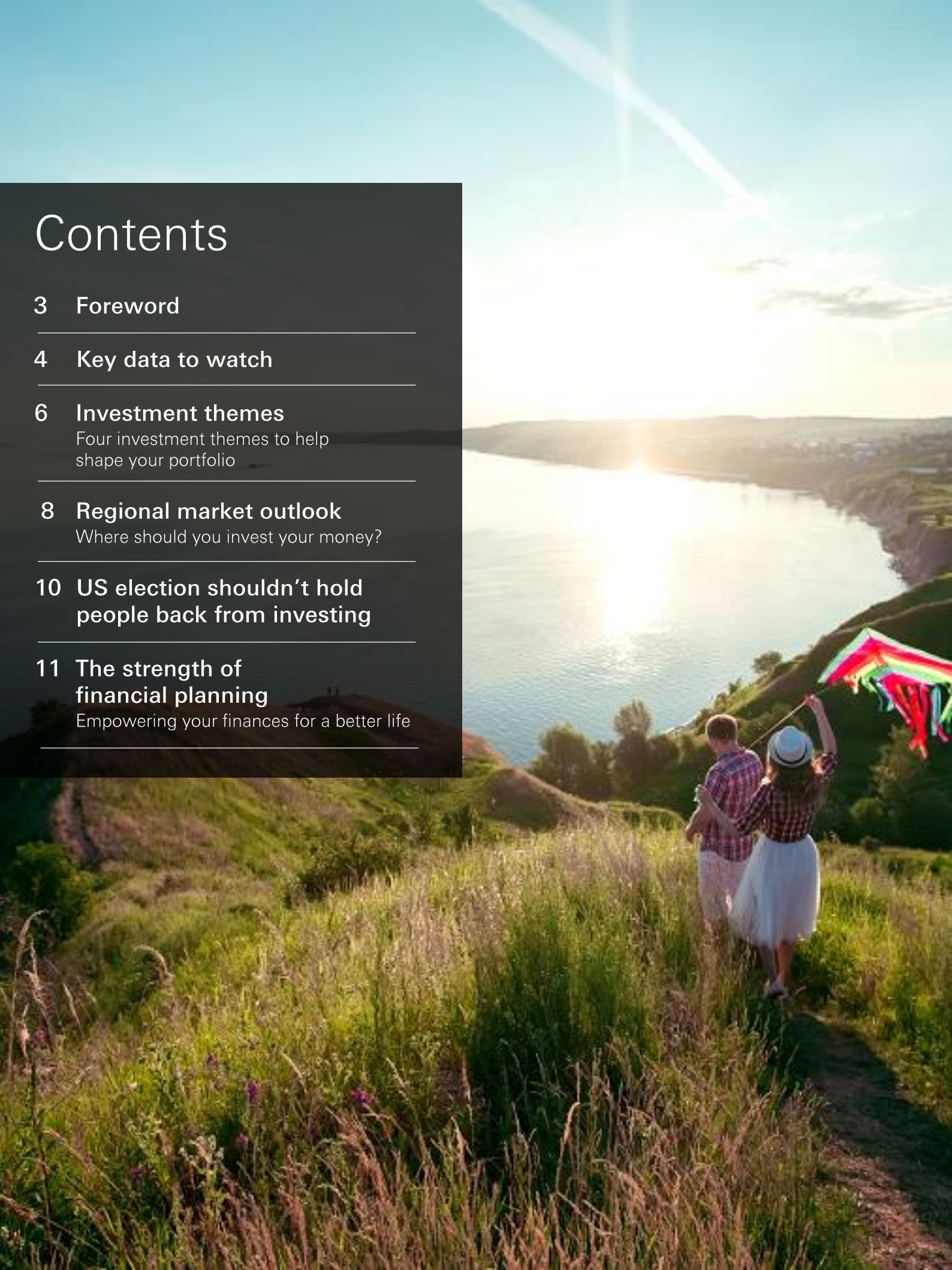
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# Rate cuts and broadening earnings growth support our optimism despite slowing growth and rising uncertainties

Last quarter proved to be an eventful period for investors, as more central banks embarked on their policy easing journeys, while rising US recession fears and the sharp strengthening of the Japanese Yen triggered a global equity market sell-off. However, markets regained the lost ground very quickly, which is a good sign that fundamentals such as earnings momentum remain intact. Looking ahead, investors shouldn't be surprised if market volatility lingers, especially as key central bank meetings and elections are approaching in the US. Yet, we remain positive, as there are still plenty of opportunities across regions and sectors to put money to work.

## What does this mean for investors?

So far this year, equities are up strongly while bonds have been benefitting from rate cut expectations. Although the US economy is cooling, it's still far from a recession, with Q2 earnings growth accelerating to 10.8%, which marks the highest growth rate since Q4 2021. And comfortingly, rising unemployment was caused mainly by an increase in labour supply rather than elevated layoffs. As fundamentals remain broadly positive, the August correction is seen as a buying opportunity as valuations are now more attractive.

The US remains our biggest equity overweight due to its broadening earnings growth and long-term structural opportunities. While the Magnificent 7 tech stocks continue to lead earnings growth, other companies are also benefitting from falling costs and the power of AI, which helps to expand revenue sources and improve productivity. The global rate cut cycle should also help investment and consumption outside of the US.

So, the key message for investors is to widen the opportunity set, by looking beyond the US and the technology sector. Geographically, the UK, Japan, India and South Korea stand out for their positive outlook. From a sector perspective, earnings hold the key, and we see promising opportunities in healthcare in Europe, high-end manufacturing in Asia and industrials in the US, to name a few.

## Balancing risk and opportunity to manage rising market uncertainties

Undoubtedly, all eyes will be on the Fed's policy decision and the upcoming US election, with polls currently suggesting a very close race. Historically, markets tend to rally once the election result is known, but uncertainty is surely building up. Diversification is key to balancing risk and opportunity, and we look to quality bonds, particularly investment grade credit, as another way to diversify exposure and generate a stable income stream. Rate cuts will make it less attractive to hold cash, while bonds continue to offer a chance to lock in current yields near multi-year highs.

Finally, we continue to see opportunities in the global transition to a more sustainable, low-carbon future. Renewable energy is a bright spot amid a global effort to triple clean energy capacity by 2030. The growing focus on biodiversity can also be a differentiator, offering investors a way to access potential growth while supporting long-term change.

As improving quality of life for our customers is at the centre of our values, we're pleased to share our views in a special article on how financial planning can improve financial fitness, based on the findings of our Quality of Life Report 2024.

We hope our investment themes and insights can help you better position your portfolios in times of rising uncertainties and take your investment to new heights. As always, our investment team is here to share our view and provide you with the support you need.

Best wishes for a successful investment journey.



**Willem Sels**

Global Chief Investment Officer,  
HSBC Global Private Banking and Wealth

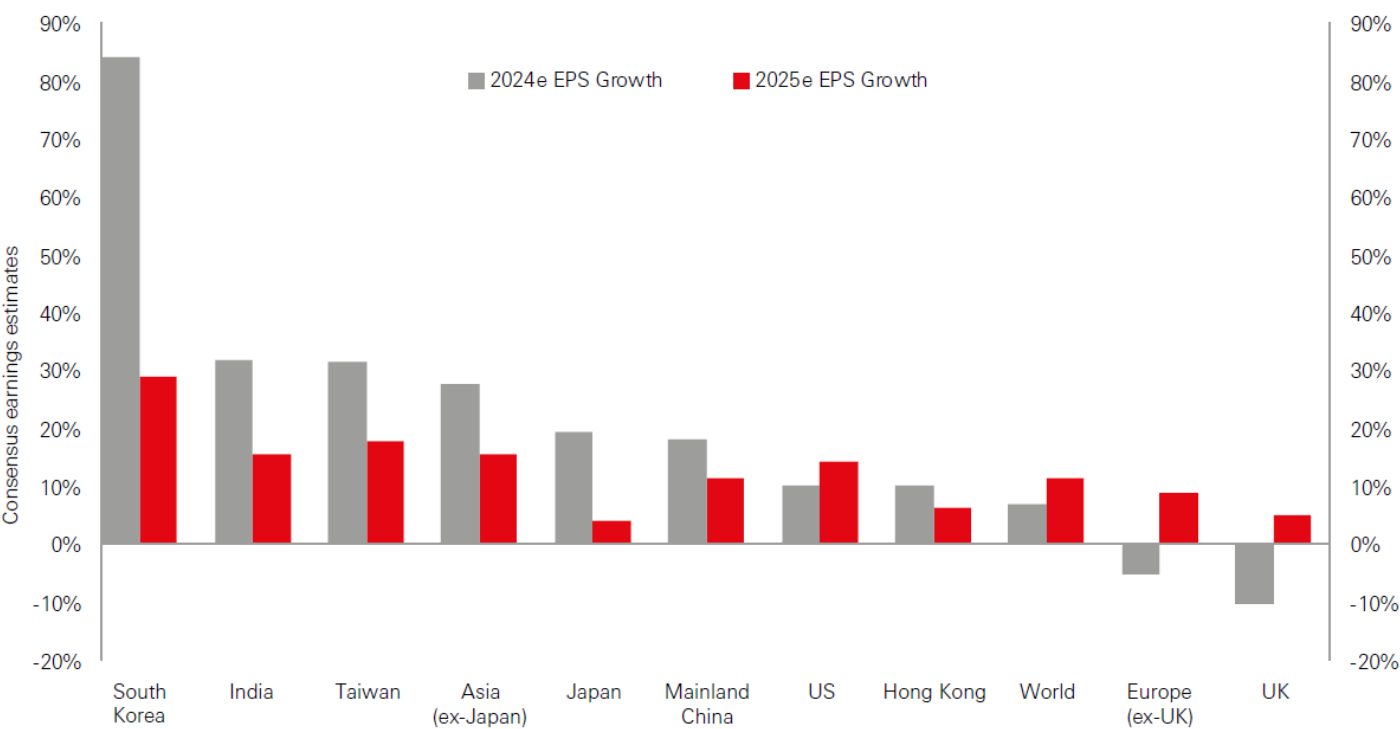
# Key data to watch

US economic growth remains robust in developed markets despite slowing down, while Asia's growth appeal is underpinned by its solid fundamentals and structural upswing

	GDP		Inflation	
	2024f	2025f	2024f	2025f
World	2.6	2.6	5.5	3.4
US	2.4	1.6	3.0	2.8
Eurozone	0.6	1.3	2.4	2.1
UK	1.2	1.5	2.7	2.5
Japan	0.4	1.2	2.6	2.2
Mainland China	4.9	4.5	0.5	1.1
India	7.1	6.5	4.5	4.7

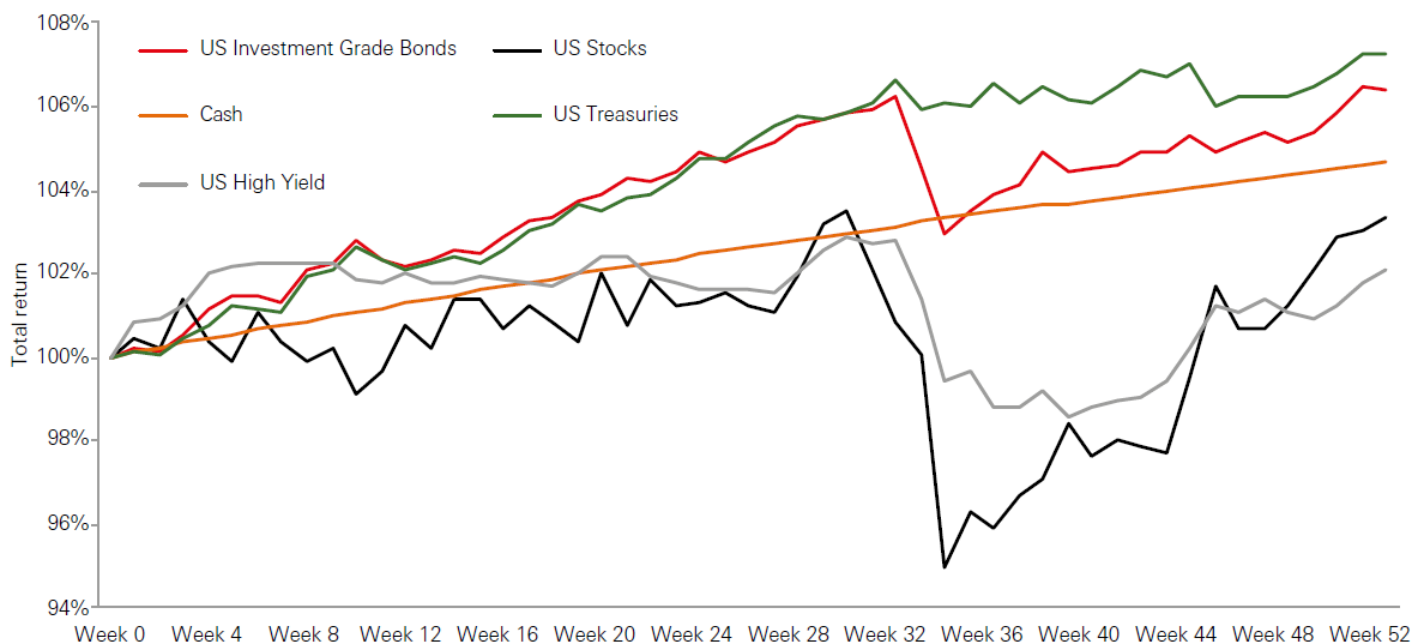
Source: HSBC Global Research as at 30 August 2024. Estimates and forecasts are subject to change. India inflation forecasts are fiscal year.

## We broaden our equity exposure across regions amid resilient earnings growth



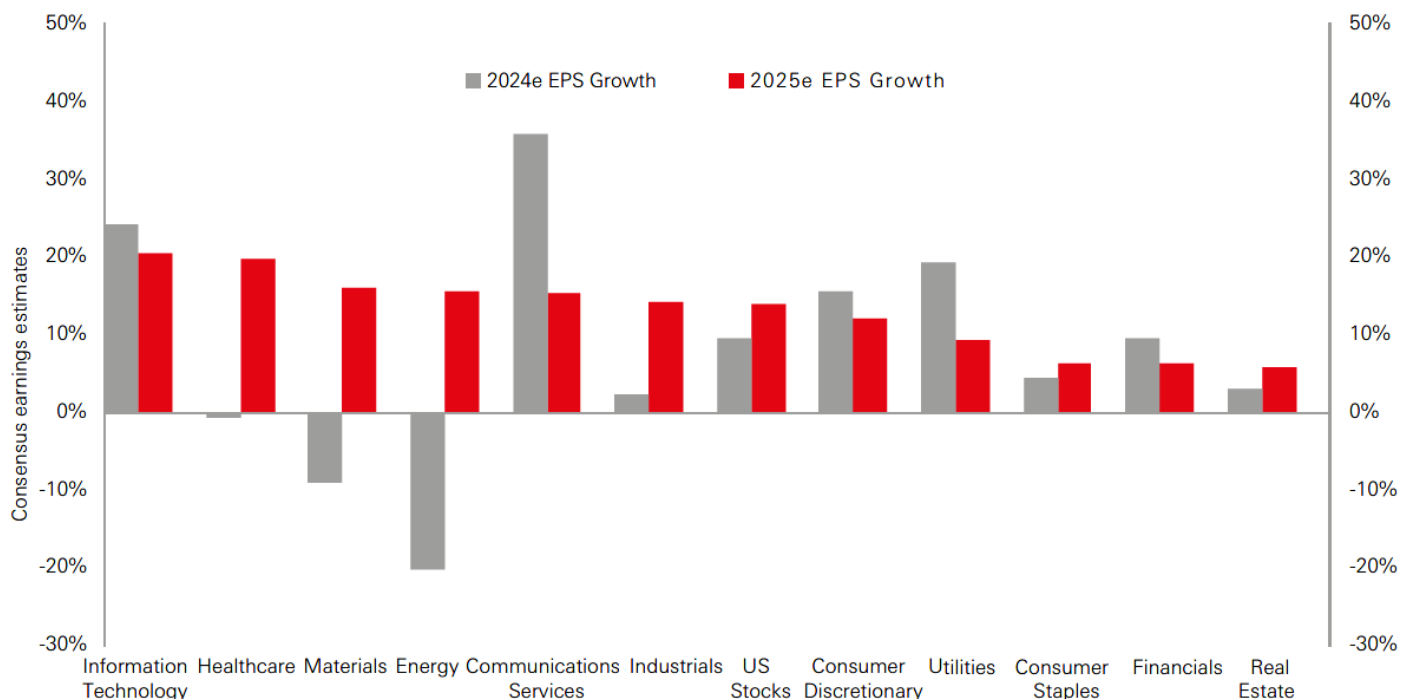
Source: Bloomberg, HSBC Global Private Banking and Wealth as at 30 August 2024. Past performance is not a reliable indicator of future performance. The above market classifications are defined by MSCI Indices.

## Quality bonds tend to outperformed for at least six months after the Fed's rate cut



Source: Bloomberg, HSBC Global Private Banking as at 30 August 2024. Based on the average of weekly performance data from 1989-2023 covering the past five easing cycles. Past performance is not a reliable indicator of the future performance.

## We prefer quality industry leaders with strong market positions, healthy balance sheets and a drive for innovation across sectors



Source: Bloomberg, HSBC Global Private Banking and Wealth as at 30 August 2024. The above industry classifications are defined by S&P Dow Jones Indices.

# Four investment themes to help shape your portfolio

## 1. Broaden equity exposure geographically amid slowing growth

Although US growth is widely expected to fall below its historical average, the economy remains resilient and should avoid a recession. Interest rate cuts, solid earnings momentum and long-term structural trends are still positive for the stock market. US equities account for two thirds of global equity market capitalisation, making them a key contributor to portfolio returns, but there are opportunities elsewhere too.

Economic cycles in the UK and the Eurozone have bottomed, and momentum is now gradually improving. However, we see more upside in the UK than in the Eurozone due to the UK's more attractive valuations, better consumer confidence and relative political stability post elections.

We maintain a diversified approach to exploiting the dynamic growth in Asia. India's strong fundamentals are further complemented by its budget focus on fiscal discipline and job creation. Both Japan and South Korea should benefit from corporate governance reforms and an increased focus on shareholder value, not to mention the opportunities arising from the AI trend. Valuations remain attractive in markets such as mainland China and Hong Kong.

- We continue to overweight global equities, preferably US and UK equities, and look for resilient growth leaders at attraction valuations.
- We diversify into Asia through exposure to India, South Korea and Japan to capture their fundamental strengths and structural opportunities.

## 2. Power up your portfolio with earnings leaders across sectors

While technology remains at the forefront in the US, earnings growth is accelerating in other sectors, such as industrials, healthcare and financials, that are benefitting from efficiency gains through the use of AI. We see structural tailwinds for industrials from re-onshoring and the support of both US presidential candidates, while rate cuts will lower borrowing costs and spur M&A activity. As a result, we expect a substantial earnings growth rate of 11% in 2024 and 14% in 2025.

In Europe, the opportunities in leading companies are broadening, and they're also being propelled by tech innovation. For example, sentiment in healthcare is shored up by new revenue generation and margin improvement. Asia ex-Japan is forecast to deliver solid earnings growth of 25% this year, with many companies benefitting from the region's leading position in technology. We like high-end manufacturing leaders in particular.

As a result, we broaden our exposure within and beyond technology, focusing on companies with strong market positions, healthy balance sheets and a drive for innovation, which are typically medium-to-large caps.

- We see opportunities in a wide spectrum of sectors in the US, including IT, communications services, industrials, financials and healthcare.
- We overweight European IT, energy and healthcare. In Asia, IT, communications services, industrials, consumer staples and utilities are preferred.

### 3. Navigate uncertainties with quality bonds or multi-asset strategies

Falling inflation and mixed labour market data have raised expectations of more Fed rate cuts commencing this September. As the global rate-cutting cycle unfolds, cash returns will become less attractive. Bonds are compelling as both a diversifier and an income generator, especially when risks around geopolitical tensions and the US election are elevated. As the rate normalisation process in developed markets is expected to be gradual, investors still have the chance to lock in current yields near multi-year highs.

Following the sharp bond rally in August amid exaggerated rate cut expectations, we've downgraded Treasuries and gilts to neutral and reduced their duration to medium. However, investment grade bonds are still offering attractive credit spreads and historically perform well in a low, yet positive, growth environment.

The heightened uncertainties ahead in Q4 call for increased risk diversification. In addition to quality bonds, a multi-asset strategy, which invests in a mix of equities, bonds and other asset classes, can help investors stay invested with downside protection.

- **We favour investment grade bonds with medium duration (5-7 years) and Indian local currency bonds for their attractive yields and strong inflows.**
- **A well-diversified portfolio, whether built by investors themselves or managed by professionals through a multi-asset strategy, is a good way to navigate uncertainties.**

### 4. Ride on the increasing momentum in the transition to carbon neutrality

The global agreement at COP28 to move away from fossil fuels to carbon neutrality suggests huge opportunities in sustainable investing. The transition has led governments and companies to evolve their policies and business models. For investors, renewable energy and biodiversity are especially relevant.

While Europe and Asia are seen as pioneers in sustainable investing, the US is quickly building momentum, with a record 23% share of US energy demand coming from renewable sources in 2023<sup>1</sup>. New solar farms and EV sales also saw unprecedented growth. Globally, energy storage is emerging as another bright spot. China is well in the lead with 43% of global storage capacity<sup>2</sup>.

The growing awareness of the impact of human activity on biodiversity has led to calls for investment and government initiatives, including the first national conservation goal in the US, which aims to protect, conserve and restore at least 30% of its lands and waters by 2030. The World Economic Forum's Global Risks Report 2024 also identifies biodiversity loss and ecosystem collapse as one of the top three risks in the next decade.

- **We see structural investment opportunities in sustainable energy sectors, such as renewables, hydrogen, energy storage and carbon capture.**
- **Companies that harness and preserve biodiversity could offer investors the potential to access growth and support long-term change.**

# Regional market outlook

## Where should you invest your money?

### United States



US economic growth has been slowing, but a recession is unlikely. Easing pressure on input costs and the prospect of falling interest rates support US corporate profits, while technological innovation is boosting productivity, especially as more companies are eager to invest and bring production back home. Strong earnings momentum and Fed rate cuts provide solid tailwinds, and we maintain our positive view on US stocks. The November election could create some temporary volatility, but markets usually rally once the result is known. Until then, we remain invested in companies with strong market positions and spread our sector positioning across technology, communications services, industrials, financials and healthcare.

### The Eurozone and UK



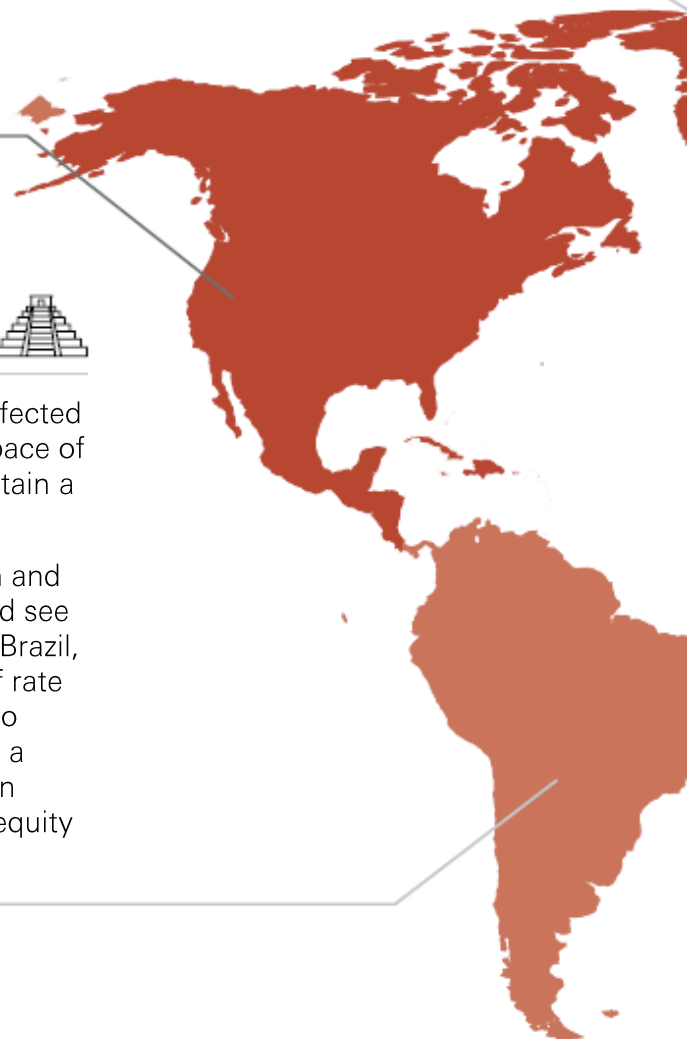
European economic growth is slower than in the US, but the region has nevertheless come out of recession and activity is seeing a gradual improvement. Rate cuts have already started in both the Eurozone and the UK, lowering companies' funding costs and increasing market optimism. One of the big attractions of European stock markets is that they are trading at lower (cheaper) valuations than US markets. But within Europe, there's more political uncertainty in the Eurozone, and more confidence in business and consumer sentiment in the UK. As a result, we maintain our neutral view on Eurozone stocks and our positive view on the UK.

### EM EMEA and EM Latin America



Central and Eastern Europe continue to be affected by the Russia-Ukraine conflict and the slow pace of growth in the Eurozone. As a result, we maintain a cautious view on EM EMEA markets.

Ahead of the US election, where immigration and trade issues are high on the agenda, we could see some volatility in Mexico's stock markets. In Brazil, the central bank will probably halt its cycle of rate cuts, while Brazilian exports could slow due to market concerns over a global slowdown. As a result, we maintain a neutral view on Mexican stocks and a more cautious view on Brazil's equity markets.





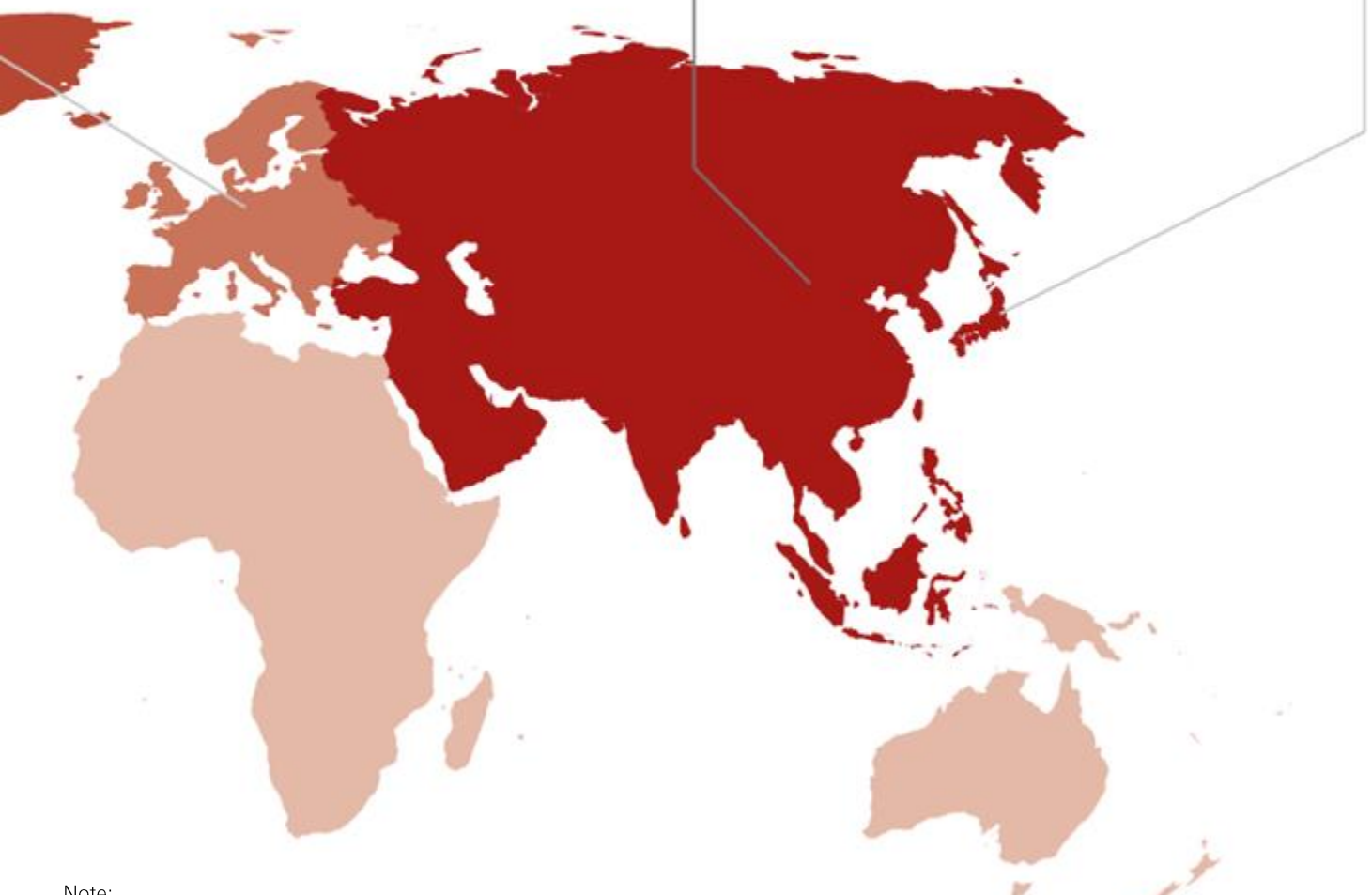
## Asia (ex-Japan)

The economic outlook in Asia remains mixed. Chinese growth is unlikely to pick up sharply in the short term, while India continues to perform strongly. Australia benefits from a strong job market, while South Korea has seen sentiment swing in line with the global technology cycle. As the activity in the region as a whole will probably be held back until we see more evidence of an acceleration in China, we maintain a neutral view on most markets, with a few exceptions: Indian stocks and bonds benefit from short-term and more structural support, and we maintain our positive view on South Korean stocks thanks to their exposure to local and global technological innovation.



## Japan

Japanese stock markets have been quite volatile in recent months as markets try to assess the Bank of Japan's likely next steps on its path to interest rate normalisation. This continued re-assessment has created wild swings in the Japanese Yen, especially as the rate hikes in Japan contrast with expectations of rate cuts in the US. Fundamentally, however, we see support for Japanese stocks due to an improvement in economic growth and increased pricing power for Japanese companies. Shareholders are also happy to see rising dividends and share buybacks. The potential for further volatility doesn't detract from our positive view on Japanese stocks, especially as many investors continue to look for diversification opportunities within Asia.



### Note:

The above comments reflect a 6-month view (relatively short-term) on asset classes for a tactical asset allocation. For a full listing of HSBC's house view on asset classes and sectors, please refer to our Investment Monthly issued at the beginning of each month.

## The key numbers

**3%** Historically, US equities rally by 3% in the 6 months prior to the election.

**8%** And then go further to 8% post election, outperforming the global average in both periods.

## What to look out for



Interest rate outlook and companies' earnings are supportive of equities and bonds.



The Fed is expected to start cutting interest rates in September and continue with its cuts in its November and December meetings.

# US election shouldn't hold people back from investing

**Looking back at history, the months ahead of the US election can be somewhat more volatile, with markets moving up and down with news headlines, but this tends to be temporary. Volatility usually eases again once the result is known.**

Since 1992, election years saw US equities rally by 3% in the 6 months prior to the election, and by 8% in the 6 months after the election, outperforming the global average in both periods. Energy, financials and technology have tended to do well in election years.

While a Republican victory could lead to tax cuts and deregulation compared to a Democratic victory, it would also likely imply more trade frictions and more uncertainty. Industrials should do well under either scenario, as both candidates want to bring more manufacturing back to the US. Deregulation under a Republican president could support financials and energy, while a Democratic victory may be seen as more positive for the healthcare sector. Markets will be interested to see the level of support for the sustainability agenda under the next president.

It's worth keeping an eye on the polls, but they're tight and the result may depend on a handful of swing states. Therefore, we don't try to guess the outcome and instead focus principally on the interest rate outlook and companies' earnings, which are supportive of equity and bond markets. We note that the Fed tends to set its interest rate policy based on economics and independently of the election calendar – so we expect the Fed to start cutting in September and continue with its cuts in the November and December meetings.

Historically, political statements by the president don't tend to have a lasting impact on the US dollar, as currencies are principally influenced by interest rate policies, economic growth differentials and global risk appetite.



# The strength of financial planning

## Empowering your finances for a better life



**Lavanya Chari**  
Global Head of Investment and  
Wealth Solutions,  
HSBC Global Private Banking and Wealth

In today's world, the measure of your overall Quality of Life focuses on a holistic view across three key interrelated dimensions: physical wellness, mental wellness and financial fitness. To dig deeper into the factors affecting Quality of Life, HSBC captured insights from 11,230 affluent individuals across 11 markets and various generations.

Building on last year's survey, the **HSBC Quality of Life Report 2024** examines changes over the past year and delves into new areas, including investment behaviours and attitudes, portfolio and wealth management, retirement and legacy planning, as well as international education for children. It also considers areas of concern, from personal health concerns to wider economic worries.

How do you assess your own Quality of Life? Read on for the latest insights from our Quality of Life Report 2024.

### A slight improvement in the Quality of Life Index

Our **Quality of Life Index** for 2024 stands at 76, an improvement of one point from the previous year. Respondents scored an average of 78 for financial fitness, 77 for physical wellness and 72 for mental wellness.

### Quality of Life Index 2024



### Key takeaways:

- Quality of Life is a holistic metric comprising physical wellness, mental wellness and financial fitness.
- The HSBC Quality of Life Report 2024 finds that financial fitness has declined in some markets and for some generations.
- Research shows that people with financial plans in place are often more satisfied with their Quality of Life

Both the physical and mental wellness factors of the index improved, highlighting the awareness of the importance of these two essential building blocks for a good Quality of Life. However, in some markets, and in some generations, the financial fitness scores declined, highlighting a need to improve confidence and preparedness in financial planning.

The study once again reaffirms the intricate connections between the three core dimensions. Notably, those scoring high on physical wellness are 1.6x as likely to be financially fit; those who are financially fit are 2.2x as likely to score above average on mental wellness; those scoring above average on mental wellness are 3.7x as likely to score high on physical wellness. This tells us that, when reviewing our Quality of Life, we need to consider the three areas in an inter-connected way, identifying areas for improvement across all three elements.

### Roadmap to a better Quality of Life

A key recurring theme that presents itself across our findings is how financial planning can improve affluent individuals' financial fitness, which helps shape their Quality of Life. Financial planning is traditionally about meeting financial goals through managing income and expenses.

However, at HSBC, we've gone beyond this longstanding definition to outline four core pillars that form the backbone of a comprehensive financial plan. Beneath these, we've identified 13 key indicators\* that influence them. All these

combine to provide our clients with a tangible way of assessing their current and future financial state.

The four core pillars are:

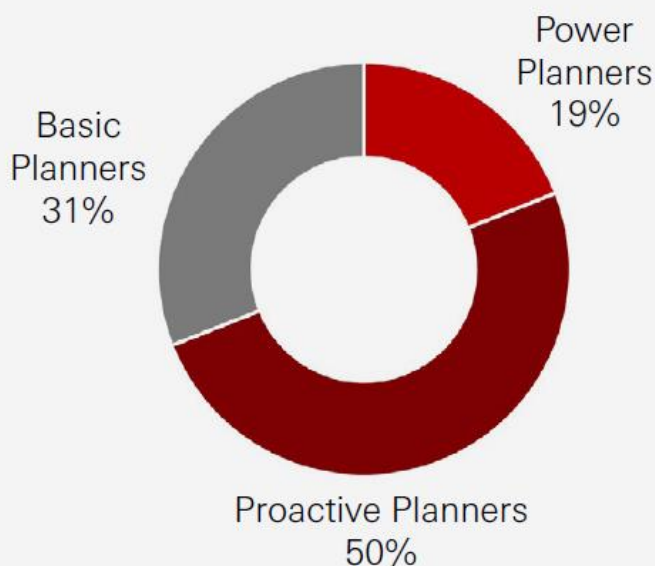
1. **Healthcare protection** – Shields against the loss of income during ill health and provides a safeguard against unforeseen medical expenses.
2. **Retirement planning** – Increases provision for financial independence and desired lifestyle in your later years.
3. **Wealth accumulation** – Facilitates the growth, accumulation and effective management of financial assets over the long term.
4. **Legacy planning** – Allows for the intentional transfer of wealth to future generations.

\*13 key indicators fall under the four core financial planning pillars, including healthcare protection, wealth accumulation, retirement planning and legacy planning. For details on these indicators, please refer to the appendix in the HSBC Quality of Life Report 2024.

### Plan better, live better – how to be a Power Planner

Our research suggests that Power and Proactive Planners (those who plan for some or all of their financial needs) are **50% more satisfied** with their Quality of Life. This strong correlation reinforces our understanding that those who are more financially prepared tend to enjoy greater wellbeing.

Respondents' levels of financial planning



Power Planners = plan for all or most of their financial needs holistically

Proactive Planners = plan for some of their financial needs

Basic Planners = plan for a limited range of their financial needs

## Power and Proactive Planners are...



# 50%

more satisfied with their  
**Quality of Life**

### Respondents' satisfied with their Quality of Life



### A closer look into wealth and wellbeing

Even among the affluent, some areas for improvement can be observed across the following indicators:

- Within the healthcare pillar, there's still a protection gap. Nearly 1 in 4 affluent individuals still feel under-protected against healthcare costs, despite citing critical illnesses, such as heart disease, cancer, and stroke, as top health concerns.
- For the retirement pillar, 4 in 10 affluent individuals across all generations say they are 'off-track' with their current retirement plans. When thinking about life in retirement, we see concerns about the decline of physical health, rising inflation and higher healthcare costs being top of mind.
- When we consider wealth accumulation, affluent individuals overall aim to diversify their portfolios. However, there are still barriers to putting this into practice, as evidenced by the 61% of affluent individuals who have no plans to modify or reassess their portfolios over the next year.
- While it was clear that leaving a legacy is important to 79% of affluent individuals, the gap between priority and planning remains large. Only 2% of respondents are legacy Power Planners, with plans in place to ensure their legacy goals are delivered.

As we draw new insights from the HSBC Quality of Life Report 2024, we learn again that Quality of Life is a holistic metric for your wellbeing and reflects itself differently for everyone. Each individual has unique aspirations, dreams and challenges that shape their perspective on Quality of Life. Achieving your desired Quality of Life isn't without hurdles: as you navigate the complexities of financial planning, you must remember that it's not a one-time event but a continuous journey.

At HSBC, we care about helping you to plan better so that you can live better. Our team of advisors are prepared to guide you through this process, providing solutions to empower you to navigate your financial future with confidence. For further details, we invite you to read the full **HSBC Quality of Life Report 2024**. Let's plan for a better Quality of Life together.



# Glossary

**Alternative investments:** a broad term referring to investments other than traditional cash and bonds. These may include real estate, hedge funds, private equities and commodities investments, among other things. Some of these investments may offer diversification benefits within a portfolio.

**Asset class:** a group of securities that show similar characteristics, behave similarly in the marketplace and are subject to the same laws and regulations. The main asset classes are equities, fixed income and commodities.

**Asset allocation:** the allocation of funds held on behalf of an investor to various categories of assets, such as equities, bonds and others, based on their investment objectives.

**Company fundamentals:** the intrinsic value of a company as analysed by looking at its revenue, expenses, assets, liabilities and other financial aspects.

**Diversification:** often referred to as “not putting all your eggs in one basket”, diversification means investing in a variety of different markets, products and securities to spread the risk of loss.

**Fiscal policy:** the use of government spending and tax policies to influence macroeconomic conditions, such as aggregate demand, employment, inflation and economic growth.

**Investment strategy:** the internal guidelines that a fund follows in investing the money received from its investors.

**Inflation:** the rise in the general price levels of goods and services in an economy over a period of time.

**Monetary policy:** the process by which the authorities of a country control the supply of money. This often involves targeting a rate of interest for the purpose of promoting economic growth and stability.

**Quantitative easing (QE):** also known as large-scale asset purchases. A monetary policy whereby a central bank buys government securities or other financial assets from the market to increase the money supply and encourage lending and investment.

**Strategic asset allocation:** a practice of maintaining a mix of asset classes which should meet an investor’s risk and return objectives over a long-term horizon and is not intended to take advantage of short-term market opportunities.

**Tactical asset allocation:** an active management strategy that deviates from the long-term strategic asset allocation in order to capitalise on economic or market conditions that may offer near-term opportunities.

**Tapering:** the reduction of the interest rate at which a central bank accumulates new assets on its balance sheet under a policy of QE.

**Volatility:** a term for the fluctuation in the price of financial instruments over time.

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### **Important information on ESG and sustainable investing**

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