News Release

10 July 2019

GROWTH IN EMERGING MARKETS IS RECOVERING, LED BY CHINA, SAYS HSBC GLOBAL ASSET MANAGEMENT

****Global "policy pivot" has been key for investment markets****

****Asian equities provide attractive valuations****

****Investment opportunities in emerging market government bonds and Asia high yield bonds****

The global "policy pivot" has been the predominant theme in the investment markets since the start of 2019, supporting the robust performance across different asset classes for the year to date, with both equities and fixed income delivering strong positive returns. Stepping into the second half of this year, HSBC Global Asset Management ("HSBC") believes that in spite of the global economic slowdown, growth in emerging markets is recovering and China is taking the lead. Modest economic growth, low inflation and interest rates, and accommodative monetary policy, combined with fairly attractive valuations, are creating a favorable environment for equities, while stabilising global economic activity is supportive of corporate revenue growth.

Misplaced macro pessimism

According to HSBC's global Nowcast, global economic growth is 2.58%[1] as of May 2019, down from last October's 3.45%[1] - a slowdown which has led to the re-emergence of recession fears. "In our view, these worries are excessive. A combination of reasonable global growth, solid corporate fundamentals and supportive monetary policy means that the prospect of a recession looks more like a risk for 2021 or beyond. As investors, we retain a pro-risk allocation and will continue to look for opportunities in selected fixed income and global equity markets where valuations are attractive," says **Bill Maldonado, Chief Investment Officer, Asia-Pacific & Global Chief Investment Officer, Equities, HSBC Global Asset Management.**

"For now, the global inflation trend remains very low, but it wouldn't take much of an upward surprise in inflation, nominal growth or interest rates to change the current pricing for fixed income assets, such as bonds. However, our valuation analysis suggests that exposure to interest rate risk is not currently being rewarded," continues **Maldonado**.

Reasonable growth and subdued inflation trends mean there is little room for central banks to tighten policy. The Federal Reserve (Fed) has already shifted its policy outlook towards a more accommodative stance; the European Central Bank (ECB) and other central banks across developed and emerging markets have also taken an accommodative position. HSBC expects policymakers to focus on cyclical stabilisation in the second half of 2019 when global inflation trends remain subdued.

Upside to be found in emerging markets

Currently HSBC sees significant opportunities arising from emerging markets. Growth in emerging economies seems to be recovering, led by improvements in China. Although geopolitical uncertainties such as trade tensions may still weigh on sentiment and thus pose challenges, HSBC thinks that a number of asset classes are relatively attractively-priced and have the potential to outperform if key risks don't materialise.

Many of last year's pressing geopolitical and macroeconomic concerns have been waning away, and this, combined with cheap valuations after the market corrected, unleashed latent value in global equities and stock markets rallied at the beginning of this year. HSBC remains positive on equities as companies continue to deliver stable profitability.

Maldonado says, "We favour risk assets and equities in particular in this environment. Among emerging markets, Asia stands out while other markets grapple with market uncertainties. Asia equities ex Japan are trading at an attractive discount compared with the US market at present. We can expect to see fundamentals playing out and potential value emerging from these equity markets from a medium to long-term perspective."

"The Chinese market has held up well so far this year but from a quite low level, so we expect China to continue producing decent returns for the rest of this year and potentially into next year. Despite concerns over the trade agenda, we think China's policymakers are good at striking a balance between risks of the economy overheating and stimulating the economy by maintaining flexibility in fiscal and monetary policies."

Attractive value in emerging market government and Asia high yield bonds

A lot of potential has been materialising with strong performance across bond segments, particularly high yield emerging market bonds and Asian bonds. HSBC expects more muted returns in the second half after a strong start. To be specific, the extreme pricing of interest rates due to inflation risk has weighed on corporate bond expected returns as the prospective return on global investment grade (IG) credit has fallen year to date. Nonetheless, HSBC sees reasonable credit risk premium in emerging market government debt and Asia high yield bonds.

Alfred Mui, Director, Head of Asian Credit, HSBC Global Asset Management, says "Asia and emerging countries have benefitted from a better policy mix and Asian USD denominated bonds in particular have rallied year to date, driven by a re-pricing of the Fed's interest rate expectations, global monetary easing cycle as well as China's stimulus to boost economic growth. Looking ahead, the accommodative easing stance on possible rate cuts globally bodes well for Asian bonds given the low cost of funding for companies. Asian credit is well equipped with improving technicals and solid fundamentals, which should be able to help this asset class weather market uncertainties.

“The Chinese authority’s primary focus on economic growth this year supported an improvement in liquidity and the funding market. The reactivation of various onshore funding channels and the introduction of credit risk management and liquidity tools should help to avert any potential systemic default risk in near term. We can expect to see additional fiscal and monetary stimulus from the Chinese government to tackle market uncertainties, thus further lowering onshore funding rates,” adds **Mui.**

Looking ahead, HSBC suggests that investors pay attention to changes in policy and economic growth, alongside inflation, corporate fundamentals and political risks. The ongoing political uncertainties and the risk of phases of volatility in investment markets will very likely persist through 2019 and 2020.

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Note to editors:

1. Nowcast is HSBC Global Asset Management’s big-data analysis model that tracks economic activity for all the major advanced and emerging economies. It looks at over 1,200 different economic time series to help us monitor how growth trends are faring in real-time. The global trend growth is 2.58% with data as at May 2019, compared to the figure at 3.45% as at October 2018.

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