15 December 2022

HSBC ASSET MANAGEMENT 2023 INVESTMENT OUTLOOK “PARALLEL WORLDS – A YEAR ABOUT THE MACRO CYCLE”

- Different economic trends in different parts of the world in 2023
- High conviction in Asian Fixed Income thanks to good valuation and benign rates environment
- Asian equities in a better position in terms of relative value.
- Asian alternatives are one of the attractive diversifiers for asset allocators

2023 will be a year about the macro cycle

Stepping into 2023, HSBC Asset Management (“HSBC AM”) holds the view that after a full year of surging inflation, rising rates and falling equity market multiples, this year will be all about the macro cycle. Reflected in the theme of “Parallel Worlds”, HSBC AM believes 2023 will change the game for investors with different economic trends in different parts of the world, a totally different economic environment versus what the world has become accustomed to in the 2010s and some big and important shifts in market valuations.

Looking ahead, HSBC AM believes that inflation pressures will gradually ease, but inflation should still be consistently high for much of next year, leaving Fed funds rate peaking at just over five per cent. With such financial tightening, we expect a recession for the US in 2023 – a corporate profits recession in the first half of the year, followed by a GDP recession.

Although Asia must face a global growth slowdown, most Asian economies will have a much better inflation-growth mix in 2023 than those in the West. Asia will benefit from borders reopening and a recovery in tourism. Inflation is expected to gradually ease back to central banks’ target next year. This will allow most Asian central banks to shift their attention back to supporting growth, instead of aggressively raising policy rates. In mainland China, 2023 will be the first year under the new economic team’s leadership after the 20th Party Congress. It will also be the transitional year for the country’s Covid policy. An acceleration of reopening and supportive policy measures should help drive a cyclical recovery in mainland China, despite some inevitable bumps in the road. Hong Kong is likely to be the biggest beneficiary from mainland China’s improved outlook and border reopening.

Joseph Little, Global Chief Strategist, HSBC Asset Management said, “We will continue to reflect an overall cautious stance and we do not advocate an aggressive use of risk budgets. Bonds seem to be the natural asset at this point in the economic and market cycle.

“We maintain a positive stance on the short end of the US Treasury curve and prefer European and Asia credits where relative valuations offer a margin-of-safety amid solid corporate balance sheets. However, we want to be selective and focus on higher quality segments. For equities, Asia markets seem attractive in the context of resilient macro trends and scope for policy easing in mainland China. Overall, we prefer North Asia over markets like LatAM and India.”

“We also see some interesting themes in the Alternatives space, notably on defensive parts, like infrastructure equity, and different economic exposures, like natural capital. Strategies such as hedge funds also continue to look like one of the attractive diversifiers for asset allocators.” **Joseph** added.

Asian Fixed Income: Top pick as valuation reaches historically attractive levels

Overall, Asia's growth prospect is better positioned even though it is not immune to a global slowdown. Subdued inflation in Asia allows central banks to shift their attention back to supporting growth, in a way benefiting Asian bond issuers. In view of this, HSBC AM is expecting a more meaningful improvement for high yield issuers to come through over the coming year. The conviction is even higher in Asia investment grade bonds, which have demonstrated a relative stability thanks to solid fundamentals and low duration.

Elizabeth Allen, Head of Asian Fixed Income, HSBC Asset Management, commented, "With the significant rise in bond yield to current levels, fixed income once again becomes an attractive investment opportunity. Asian fixed income is one of our top picks for investment in 2023. The sell-off we have seen in 2022 has pushed bond valuations into historically attractive territory and considering a more benign global rates environment, we expect spreads to tighten for Asian bonds over the coming year.

"A weaker US dollar and economic outperformance from Asia should also lead to meaningful appreciation of currencies in aggregate, while corporate credit would benefit from the same conditions." **Elizabeth** added.

Asian Equities: Asia markets seem attractive in the context of resilient macro trends

Asian equities are also in a better position in terms of relative value. On a 12-month view, HSBC AM believes Asian markets, particularly North Asian markets, will be stronger. Mainland China's pivot towards gradual relaxation of Covid policies and more comprehensive policy support for the property sector are notable drivers that will support its growth recovery.

Caroline Maurer, Head of China and Hong Kong Equities, HSBC Asset Management, said, "Recently, mainland China's policy movements have shown strong signals on 2023 reopening. This would help revive consumer sentiment, ease supply chain bottlenecks and boost economic activity in the coming year, in particular in the consumption and services sectors.

"The '16 measures' together with the bond sale programme support may mark a turning point for the property sector, as the support to developers will reduce liquidity pressure of certain privately owned enterprises and protect the downside of the sector given their extremely low valuation after correction.

"While market rebound would still be bumpy in the near future, it would be a good opportunity to add exposure to growth stocks when the market corrects on poor macro data as we look through the 'near-term' and price in the 'future'. We favour reopening beneficiaries in mainland China such as airlines, hotels, restaurants, travel agents and position for long term growth in high-end manufacturing and de-carbonisation." **Caroline** added.

Asian Alternatives: Standing firm through parallel worlds

The dynamic growth of Asian economies and the climate transition provide investors with opportunities across asset classes while supporting the evolution to more sustainable economies. Alternative assets allow long term investors to flexibly navigate and exploit short-term volatility in the changing economic and market environment.

John Dewey, Head of Alternative Solutions, HSBC Asset Management, said, "Infrastructure investment is needed to achieve net-zero ambitions in Asia, driven by political, regulatory, and reputational pressure. The scale of the transition requires private capital to supplement public investment in wind, solar, hydrogen, energy storage, EV charging and grid infrastructure. Both equity and debt can benefit from robust cash-flows, which is often inflation-linked, underpinned by regulation and long-term contracts."

"In hedge funds, we expect developed market macro and systematic market neutral strategies to benefit from heightened volatility, asynchronous monetary policy and diverging economic regimes in 2023, whereas managed futures and equity market neutral strategies are supported by higher cash returns. On a side note, the Greater Bay Area is a hub for innovation and technology. This provides opportunities in early-stage venture capital investment in companies that enhance financial access, provide choice and control to consumers, and innovate in insurance and health." **John** added.

Conclusion: New investment playbook with renewed focus for 2023

In a nutshell, HSBC AM believes that a new economic and market regime calls for a new investment playbook, with a renewed focus on active management. We can no longer rely on standard approaches to diversification and must now be more creative to navigate a turbulent environment. That means incorporating assets that are decorrelated by nature, such as Asian bonds, and seeking out areas of the market that stand to benefit from the change in regime.

ends/more

Note to editors:

(left to right) John Dewey, Head of Alternative Solutions, HSBC Asset Management; Elizabeth Allen, Head of Asian Fixed Income, HSBC Asset Management; Joseph Little, Global Chief Strategist, HSBC Asset Management; Caroline Maurer, Head of China and Hong Kong Equities, HSBC Asset Management

HSBC

Important information

HSBC Asset Management

HSBC Asset Management should be referred to either in full or as HSBC AM to avoid confusion with any other financial services firms.
HSBC Asset Management, the investment management business of the HSBC Group, invests on behalf of HSBC's worldwide customer base of retail and private clients, intermediaries, corporates and institutions through both segregated accounts and pooled funds. HSBC Asset Management connects HSBC's clients with investment opportunities around the world through an international network of offices in around 23 countries and territories, delivering global capabilities with local market insight. As at 30 September 2022, HSBC Asset Management managed assets totalling US$574bn on behalf of its clients. For more information see http://www.global.assetmanagement.hsbc.com/
HSBC Asset Management is the marketing name for the asset management businesses of HSBC Holdings plc.

The Hongkong and Shanghai Banking Corporation Limited

The Hongkong and Shanghai Banking Corporation Limited is the founding member of the HSBC Group. HSBC serves customers worldwide from offices in 63 countries and territories in its geographical regions: Europe, Asia, North America, Latin America, and Middle East and North Africa. With assets of US$2,992bn at 30 September 2022, HSBC is one of the largest banking and financial services organisations in the world.

ends/all

HSBC