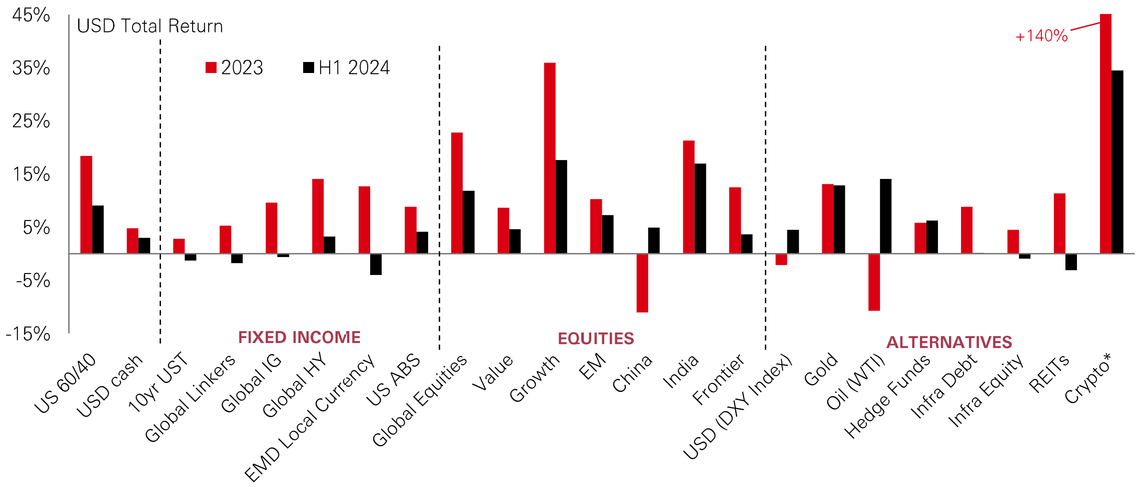
HSBC

Investment Weekly

01 July 2024

Chart of the week – Market action in H1



What's next for investment markets in the second half of the year? A good starting point is to reflect on where we have come from. And 2024 has had already seen some economic and market twists and turns.

The resetting of 2024 policy rate expectations (from 7 Fed cuts to only 1-2) was the big economic event during H1. This damaged core fixed income returns. But shorter duration credits – like High Yield or ABS – fared better. Meanwhile macro resilience and the AI megatrend helped global stocks to keep on going. Value stocks couldn't keep pace with Growth, but still managed to deliver returns (on an annualised basis) at a similar clip to 2023.

Yet the headlines mask important nuances. Strength in developed market stocks was broad-based in Q1, but performance has been more varied during Q2, with tech performing well. Likewise, Treasury bond yields rose through to late April, thanks to hot growth and inflation prints. But, since then, signs that growth is slowing and inflation unsticking itself have driven a bond rally. **In investing, both the destination and the journey are important**.

So, what do these trends tell us about the near-term future? Well, after a tricky start to 2024, we see **a return for fixed income**. For **credits and stocks, a more selective approach** looks warranted. Areas like infrastructure and real estate are unloved and typically defensive. Japan still looks interesting. And don't overlook opportunities to "play the yield" especially in Asia. South Asia, after all, remains the fastest growing region in 2024.

Market Spotlight

Some lessons from EM investing in H1

Asia has been the best performing EM region in the first half of the year. The recovery in Chinese stocks accelerated in Q2 with investor confidence boosted by stabilising profits and policy initiatives. Elsewhere, India has seen strong returns again in 2024 – with MSCI India delivering comparable performance to the S&P500.

Latin America – the winning region in 2023 – has struggled in 2024. Stocks have both performed negatively, despite both Brazil and Mexico cutting interest rates. An interesting theme for US and European investors to mull over.

A third lesson from emerging market investing in H1 has been connected to how election uncertainty transmits to market price action. Polling results in India in June created short-lived stock and FX volatility, but the market quickly recovered as investors refocussed on a consistent policy agenda and the exciting Indian megatrends. But in Mexico, the peso has sustained a double-digit percent drawdown following the election result. For investors, it's not just news and events that matter for market direction, but how traders' expectations are set ahead of that news.

Equities →

Exploring valuations in DM stock market sectors

Currencies →

Why the strong US dollar could be vulnerable

Playing the yield →

Tactics and strategies for investors in the second half

Source: HSBC Asset Management. Macrobond, Bloomberg. Data as at 11.00am UK time 28 June 2024.

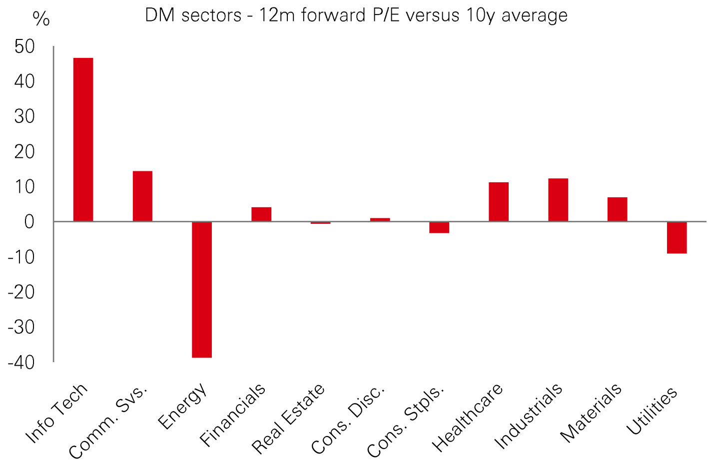
*Note: Asset class performance is represented by different indices. US 60/40: Bloomberg EQ:FI 60:40 Index, Cash: JP Morgan Cash Index (3month), 10yr UST: ICE BofA 10yr US Treasury Index, Global Linkers: ICE BofAGlobal Inflation-Linked Government Index, Global IG: Bloomberg Barclays Global IG Total Return Index unhedged. Global High Yield Index: ICE BoFaUS High Yield Index, EMD Hard currency: US ABS: Bloomberg US ABS Floating Rate Total Return index; Bloomberg Barclays Global Aggregate Treasuries Total Return Index. EMD local currency JP Morgan EMBI Global Total Return local currency. Global Equities: MSCI ACWI Net Total Return USD Index. Value: MSCI Value Index, Growth: MSCI Growth Index, Global Emerging Market Equities: MSCI Emerging Market Net Total Return USD Index. China: MSCI China Index, India: MSCI India Index. Frontier: MSCI Frontier Markets Total Return Index, Alternatives: USD: DXY Index, Gold Spot $/OZ, Oil: WTI crude oil, Hedge funds: Credit Suisse Hedge Fund Index, Leverage Loans: JP Morgan liquid Loan Index, Infra Debt: iBoxx USD Infrastructure Total Return Index, Infra Equity: Dow Jones Brookfields Global Infrastructure Total Return Index, REITS Real Estate: FTSE EPRA/NAREIT Global Index TR USD. *Crypto: Bloomberg Galaxy Crypto Index.

A question of value

Developed market stocks delivered strong returns in H1. But looking ahead, a key question for investors is whether valuations are overstretched, and whether future returns could suffer as a result.

An obvious place to start is the Info Tech and Communications Services sectors. These have been the epicentre of the AI mega-theme in equities for more than 18 months – and a prime driver of returns. **IT currently trades on a forward price-earnings (PE) ratio nearly 47% above its 10-year average**. Communications is 14% ahead (and even higher in the US). While these sectors could continue to perform well, rich valuations can be vulnerable to profit disappointments, especially if conditions weaken.

By contrast, some of the more defensive and rate-sensitive sectors are cheaper and could offer respite if growth starts to soften. Utilities, Staples and Real Estate trade below their 10-year average Energy is the cheapest of the lot.

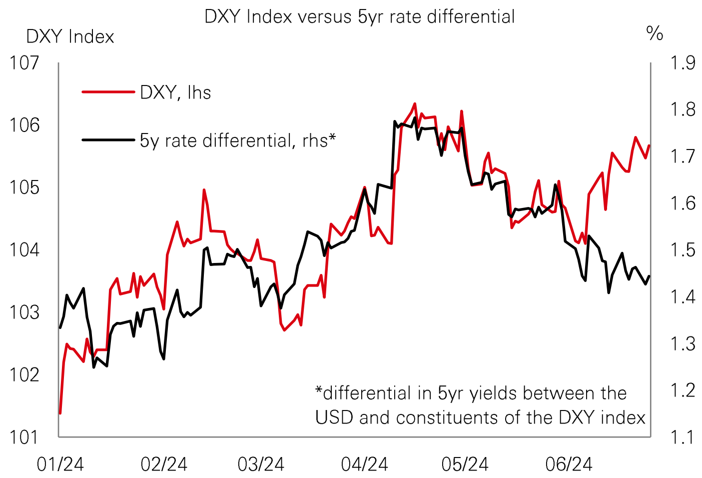


Dollar – still strong

By rights, the US dollar should have weakened through June. US activity data have been surprising meaningfully to the downside, which, combined with soft May inflation readings, has meant that US yields have declined relative to yields elsewhere. Yet the dollar has gained ground.

A large part of the answer lies in what's driving the euro, which has the largest weight in the DXY index. Idiosyncratic risks for the euro have gone up materially, reflecting political developments in France. The euro is caught up in the tussle between euro-positive moves in rate differentials and euro-negative peripheral spreads, with the latter dominating thus far.

However, if the macro undercurrents continue to evolve against the dollar, as we expect, and if the European political situation quietens down during the summer break, **the recent divergence between the dollar and rates may prove temporary**. Furthermore, over the medium-term, a US slowdown is likely to be more consequential for the dollar.



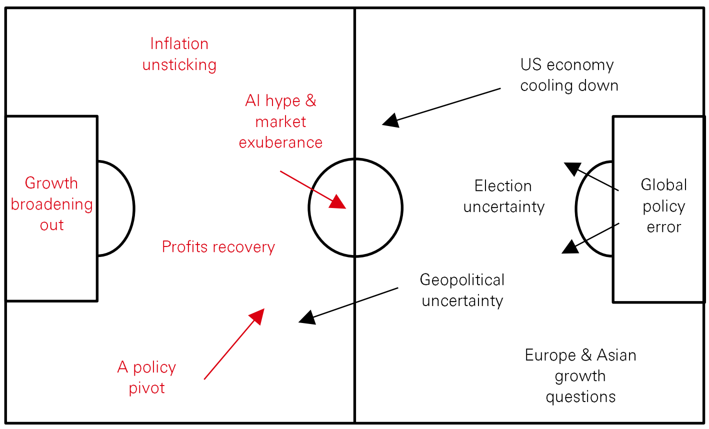
Is football coming home?

With the UEFA European Championship reaching its crucial knockout stages last weekend, some of football's great tacticians will be looking for opportunities in attack and ways to soak up pressure in defence. This can be taken as an inspiration for some of our latest thinking on investment markets in the second half of this year.

There are a number of reasons for investors to remain optimistic in H2. As the 'reds' show, a solid back line of broadening growth, a return to disinflation and expected central bank policy easing offer confidence. We're already seeing a pick-up in the global earnings outlook. And of course, some mega-themes like technology have so far delivered star performances.

But of course, the opposition, in 'black', must be taken seriously. **Geopolitical and election uncertainty are likely to be top of mind in the coming months**, and could unsettle markets. Signs of cooling in the US and an uncertain growth outlook for Asia and Europe also demand caution. And of course, any mis-steps at the policy level could put markets on the back foot too.

'Playing the yield'



Past performance does not predict future returns. The level of yield is not guaranteed and may rise or fall in the future. Source: HSBC Asset Management. Macrobond, Bloomberg. Data as at 11.00am UK time 28 June 2024.

Key Events and Data Releases

Last week

Date	Country	Indicator	Data as of	Actual	Prior
Mon. 24 June	GE	IFO Business Climate Index	Jun	88.6	89.3
Tue. 25 June	US	Case Shiller 20 City House Price Index (y-o-y)	May	7.2%	7.5%
Wed. 26 June	US	New Home Sales (mom)	May	-11.3%	2.0%
Thu. 27 June	PH	Philippines Central Bank Interest Rate Decision	Jun	6.50%	6.50%
	TK	Turkish Central Bank Interest Rate Decision	Jun	50.00%	50.00%
	MX	Banxico Interest Rate Decision	Jun	11.00%	11.00%
	US	GDP (q-o-q annualised)	Q1 (F)	1.4%	1.3% (S)
	US	Biden-Trump First Debate	Jun		
Fri. 28 June	US	Core PCE	May	-	2.8%

P – Preliminary, Q – Quarter, F – Final, S – Second Estimate **GE – Germany, US – United States, PH – Philippines, TK – Turkey, MX – Mexico**

The week ahead

Date	Country	Indicator	Data as of	Survey	Prior
Sun. 30 Jun	CN	Official NBS Manufacturing PMI	Jun	49.5	49.5
	FR	First round of French lower house elections	Jun		
Mon. 1 July	JP	BoJ Tankan Large Manufacturers Business Confidence	Q2	11.0	11.0
	KO	Consumer prices (y-o-y)	Jun	2.7%	2.7%
	CN	Caixin Manufacturing PMI	Jun	51.5	51.7
	BR	S&P Global Manufacturing PMI	Jun	-	52.1
	US	ISM Manufacturing Index	Jun	49.0	48.7
Tue. 2 July	EZ	Consumer prices (y-o-y)	Jun (P)	2.5%	2.6%
	PT				
	MX	S&P Global Manufacturing PMI	Jun	-	51.2
Wed. 3 July	US	ISM Services Index	Jun	52.0	53.8
	US	June FOMC minutes published	Jun		
Thu. 4 July	UK	General Election	Jul		
	US	Financial Markets closed for Independence Day			
Fri. 5 July	US	Change in Payrolls (000s)	Jun	188	272

P – Preliminary, Q – Quarter **CN – China, FR – France, JP – Japan, KO – South Korea, BR – Brazil, EZ – Eurozone, PT – Portugal, MX – Mexico**

Source: HSBC Asset Management. Data as at 11.00am UK time 28 June 2024.

Market review

Risk assets struggled to make headway amid a quiet week for economic updates. Core government bonds consolidated as investors absorbed hawkish comments from Fed member Bowman and mixed US data. The latest inflation figures in Australia and Canada surprised on the upside. US equities were range-bound. The Euro Stoxx 50 index traded sideways ahead of the first round of French legislative elections, while the spread between 10yr French and 10yr German sovereign bonds widened. Japan's Nikkei 225 index rallied as the yen weakened against the US dollar to new multi-decade lows, with JGB yields higher on rising rate concerns. In EM, the Shanghai Composite remained on the defensive ahead of the third plenum review in China. India's Sensex reached another record high. In commodities, improving demand lifted oil prices amid ongoing geopolitical tensions. Gold and copper softened.

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