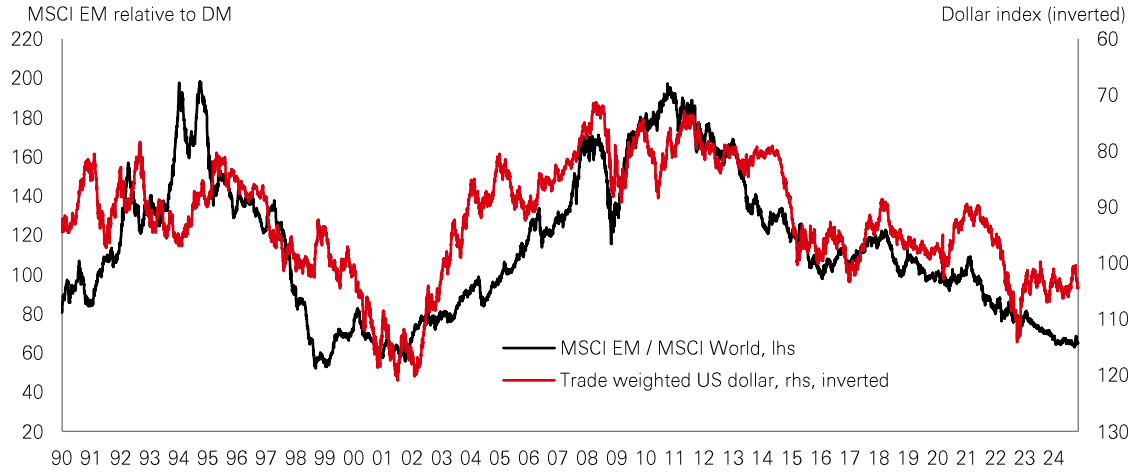


Investment Weekly

4 November 2024

Chart of the week – US dollar and EM assets



The recent strengthening of the US dollar (USD) has put emerging market assets under pressure. Will it continue?

The stronger dollar and rising US Treasury yields have been driven by a string of better-than-expected US economic data. The moves also reflect investor uncertainty about how the US policy agenda might impact fiscal deficits and inflation trends. New industrial policies, for example, could leave the Fed with less room to cut rates, boosting the USD further.

However, the dollar outlook isn't straightforward. The BRICS summit highlighted an ongoing trend for de-dollarisation; the reduced use of the USD in world trade and financial transactions. It's notable that in emerging market FX reserves, the dollar is becoming less dominant. But this process is very gradual and seems likely to take decades.

Back to today, the central scenario is one of ongoing disinflation, Fed cuts, and softer US growth. And these forces are consistent with lower US bond yields and a weaker USD.

Rates Outlook →

Will the Fed cut rates again at its November meeting?

Global Equities →

Why US stock markets outperformed in October

Market Spotlight

Capital markets outlook

Three things about the capital markets stand out. First, a medium-term economic regime of more volatile inflation and a new fiscal/monetary policy mix raises the assumption for interest rates. And that **reinforces the appeal of core fixed income and the 'all-in' yields from 'senior' credit asset classes** like infrastructure debt, asset-backed securities, and global investment grade.

Second, **the most compelling valuation anomaly today is in emerging markets**. EM fixed income and equity returns look higher than in most of the G7. Opportunities in India, North Asia, and frontier markets stand out, as do themes in local currency EM bonds.

Third, as the economic environment becomes more uncertain, **there needs to be a larger role for private markets and other alternatives**. That means focusing on diversifiers like hedge funds or commodities, the double-digit yields in private credit and infrastructure equity, and the emerging value in real estate and private equity.

The value of investments and any income from them can go down as well as up and investors may not get back the amount originally invested. Past performance does not predict future returns. Investments in emerging markets are by their nature higher risk and potentially more volatile than those inherent in some established markets. The level of yield is not guaranteed and may rise or fall in the future. For informational purposes only and should not be construed as a recommendation to invest in the specific country, product, strategy, sector or security. Any views expressed were held at the time of preparation and are subject to change without notice. Diversification does not ensure a profit or protect against loss.

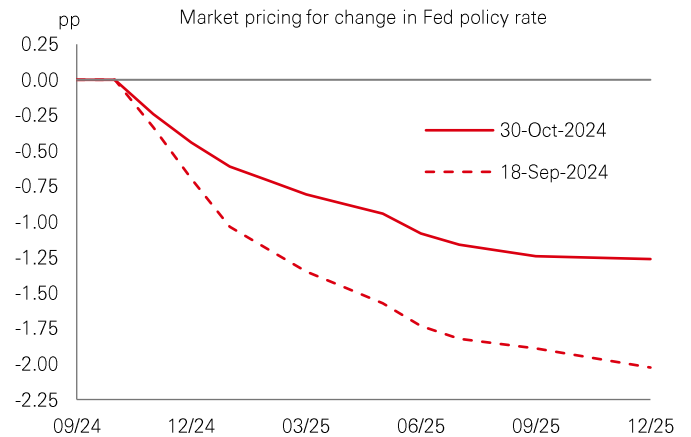
Source: HSBC Asset Management. Macrobond, Bloomberg. Data as at 7.30am UK time 04 November 2024.

Fed takes it slow

The Fed's November meeting will take place after the US elections. While the election could bring with it some market volatility, the Fed is likely to look through this and focus on the recent data.

On that front, it is in a more comfortable position than in September, when it opted to cut rates by 0.5%. On average, activity data have surprised to the upside; after a run of softer readings over the summer. Labour data have been mixed – employment measures have remained robust, despite depressed new hiring and layoffs picking up in September. Overall, the Fed is likely to be relaxed about growth and labour developments. And while core PCE inflation picked up on a month-on-month basis in September, the six-month annualised pace of change – something Powell has mentioned the Fed looks at – is running only marginally above target, at 2.3%.

We see a 0.25% cut being delivered this month, which is in line with market pricing. To maximise the chances of a soft landing, **the Fed is expected to opt for a further steady stream of cuts at subsequent meetings to bring the funds rate down to a more 'neutral' level by mid-2025.**

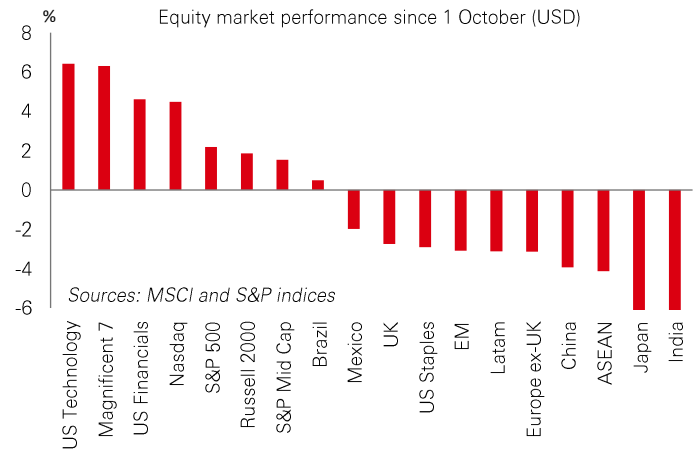


US stocks as a haven

Against a backdrop of decent Q3 earnings and resilient macro data, investors turned even more bullish on US stocks in October. Demand for volatility protection – as measured by the put-to-call ratio – is below average. 'Bulls' still outweigh 'bears' in the AAI investor sentiment survey, and defensive sectors like Staples have lagged.

Faced with uncertainty over potential economic policy changes in the months ahead, investors have so far opted for the perceived safety of US stocks. Emerging market equities have been weaker, notably in India, ASEAN, and China. Eurozone stocks have also been out of favour.

Amid some reasonable Q3 earnings reports from Magnificent 7 stocks last week, US technology remains in demand – despite average price-to-book valuations at an all-time high of 23x and high overseas exposure, with 60% of sector sales going abroad. But Financials and even US small-caps have outperformed versus the rest of the world. Yet, **US stocks could be vulnerable to a shift in mood once the details of any changes to US trade policies are clearer.**



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Source: HSBC Asset Management. Macrobond, Bloomberg, Datastream. Data as at 7.30am UK time 04 November 2024.



Key Events and Data Releases

Last week

Date	Country	Indicator	Data as of	Actual	Prior
Tue. 29 October	US	JOLTS Job Openings	Sep	7.44mn	7.86mn
	US	Consumer Confidence Index, Conference Board	Oct	108.7	99.2
Wed. 30 October	US	GDP, Flash (qoq)	Q3	2.8%	3.0%
	EZ	GDP, Prelim (qoq)	Q3	0.4%	0.2%
	UK	Budget	Oct		
	MX	GDP, Flash (qoq)	Q3	1.0%	0.2%
Thu. 31 October	US	PCE Price Index (yoy)	Sep	2.1%	2.3%
	JP	BoJ Policy Rate	Oct	0.25%	0.25%
	EZ	HICP, Flash (yoy)	Oct	2.0%	1.7%
	CN	NBS Composite PMI	Oct	50.8	50.4
Fri. 01 November	US	Change in Non-Farm Payrolls	Oct	105k	254k
	US	ISM Manufacturing Index	Oct	47.6	47.2

The week ahead

Date	Country	Indicator	Data as of	Survey	Prior
Mon. 04 November	CN	Start of the 5-day NPC Standing Committee meeting	Nov		
	US	Q3 earnings	Q3		
Tue. 05 November	US	ISM Services Index	Oct	53.3	54.9
	AU	RBA Cash Target Rate	Nov	4.35%	4.35%
	US	Presidential Election	Nov		
Wed. 06 November	BR	Banco de Brazil SELIC Target Rate	Nov	11.25%	10.75%
Thu. 07 November	US	Fed Funds Rate (upper band)	Nov	4.75%	5.00%
	MX	Headline Inflation (yoy)	Oct	-	4.6%
	UK	BoE MPC Base Rate	Nov	4.75%	5.00%
	SW	Riksbank Policy Rate	Nov	2.75%	3.25%
	CN	Trade Balance (USD)	Oct	73.4bn	81.7bn
Sat. 09 November	CN	CPI (yoy)	Oct	-	0.4%

Source: HSBC Asset Management. Data as at 7.30am UK time 04 November 2024. For informational purposes only and should not be construed as a recommendation to invest in the specific country, product, strategy, sector or security. Any views expressed were held at the time of preparation and are subject to change without notice.



Market review

Risk markets are on the defensive ahead of the US presidential election, with the US DXY dollar index consolidating after recent gains. Core government bonds weakened on upward US and Eurozone data surprises. Gilts lagged US Treasuries as investors fretted about the medium-term outlook for government borrowing, led by a rise in 2-year yields. In the US, the Nasdaq fell on disappointing outlooks from some tech heavyweights. Weaker tech stocks pressured the Euro Stoxx index. The Nikkei 225 pared most of its gains amid a firmer yen following hawkish comments from BoJ Governor Ueda. In EM, the Shanghai Composite Index and Hang Seng slipped ahead of the key National People's Congress Standing Committee meeting. India's Sensex index traded sideways. In commodities, easing geopolitical tensions pushed down oil prices. Gold prices reached a new high.

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