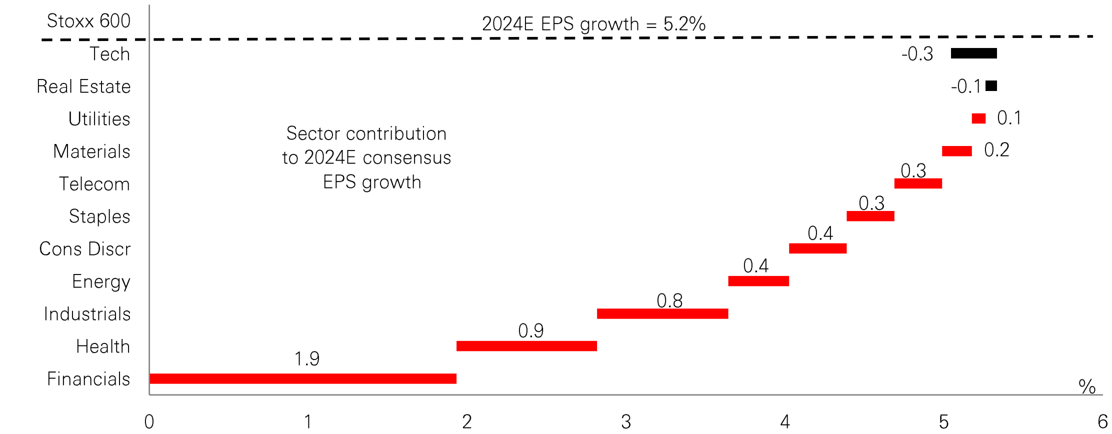
# Investment Weekly

3 June 2024

## Chart of the week – Euro 2024!




With Europe's Q1 earnings season drawing to a close – and more than 90% of stocks having now reported – the big picture is that the continent's corporates are materially beating consensus expectations. After consistently being on the back foot versus US peers post-Covid, European firms – and share prices – are feeling the effects of an improving macro environment and a rebound in earnings momentum. And, crucially, they also now face the prospect of a rate cut from the European Central Bank next week. The Stoxx Europe 600 index is up over 7% year-to-date.

The outlook for 2024 index earnings growth is currently just above 5%. Financials – which saw the most earnings 'beats' and highest upward revisions in Q1 – are forecast to contribute 40% of the growth this year. And with the sector's price-earnings ratio 30% below its own long-run average and double the normal discount to US peers, there is room for price gains. Meanwhile, technology, which has underpinned earnings growth in the US, is set to be a net drag on earnings growth in Europe this year. But there should be a turnaround in tech fortunes at the end of this year. Analysts expect this to push index EPS growth higher to match the US more closely at around 10% in 2025.

Overall, appealing valuations and the potential for a cyclical pickup offers some reasons to be confident. **But the outlook remains dependent on the Fed policy, which ultimately constrains the ECB. And it's hard to see a robust European recovery if US economic momentum falters.**


Japanese Equities →

Exploring the impact of a weaker yen on the Japanese stock market

Asia FX →

Why Asian currencies have been resilient against the strong US dollar

Immigration Trends →

Why a rise in immigration could be boosting the US economy


## Market Spotlight

### All eyes on securitised credit

Many areas of the corporate credit market are currently trading at historically tight spreads. But one investment grade asset class benefitting from higher rates yet still offering potential long-term value, is securitised credit.

As a largely floating rate asset, the coupons on securitised credit rose in 2022 and 2023 and have yet to meaningfully fall. As long as rates remain high, **the securities could continue to generate high income**. And while spreads have tightened during the last quarter, they remain close to the middle of the range since 2009 (excluding Covid).

The recent tightening has been less significant in commercial mortgage-backed securities (CMBS). That's not surprising given the fragile outlook for commercial real estate. It means performance of CMBS has depended heavily on the profile of secured properties. Sectors like Life Sciences, Multifamily and Prime Offices that accommodate working from home, are expected to keep performing well. But secondary offices and secondary shopping malls face a more uncertain outlook – meaning that security selection is key.

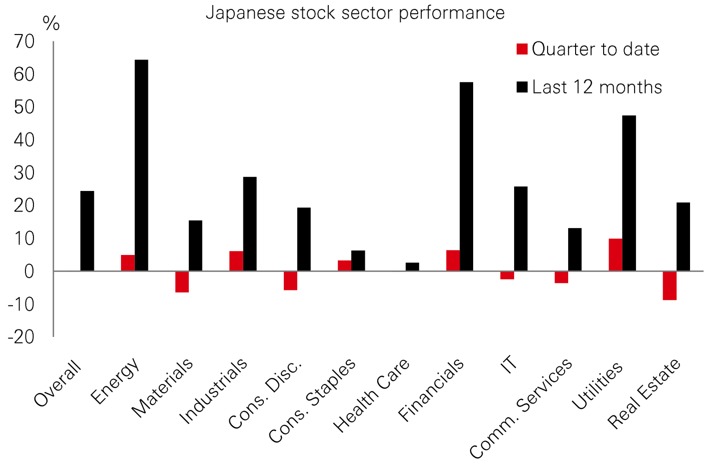


Source: HSBC Asset Management. Macrobond, Bloomberg. Data as at 11.00am UK time 01 June 2024.

### Japanese stocks slip

After rallying in Q1 2024, Japanese stocks have delivered a more subdued performance in Q2. A key reason has been weakness in the yen, which has fallen to multi-year lows against the US dollar. Historically, there has been a negative correlation between the yen and Japanese stocks because a weak currency tends to boost big exporters. But there are downsides too. Higher import costs have crimped the margins of domestic firms, notably in the energy and materials sectors. And after a period of strong international inflows, the weaker yen now risks being a deterrent to foreign investors.

Despite these frictions, the outlook for Japanese stocks is positive. Earnings growth has been resilient, helped by stronger regional trade flows and robust demand in sectors like technology. In May, Japan's manufacturing PMI survey moved into expansion territory for first time in a year. Ongoing corporate governance reforms also help. And in terms of valuation, Japan still trades at a discount to other DM markets like the US.




### Resilient Asian FX

Against the backdrop of a strong US dollar, emerging market Asia FX has proved to be relatively resilient this year. While countries across the region have responded to the pressure in different ways, the general picture is that Asian currencies have only seen modest weakness versus their major EM peers.

This resilience is down to several factors. One is that Asian economies have been in better shape to fend off FX stress than in the past. FX reserve adequacy ratios and basic balances have been bolstered, and balance of payments risks are more manageable. Asian central banks have also had a wider range of policy tools at their disposal to curb excessive one-sided FX moves without needing to deplete their FX reserves.

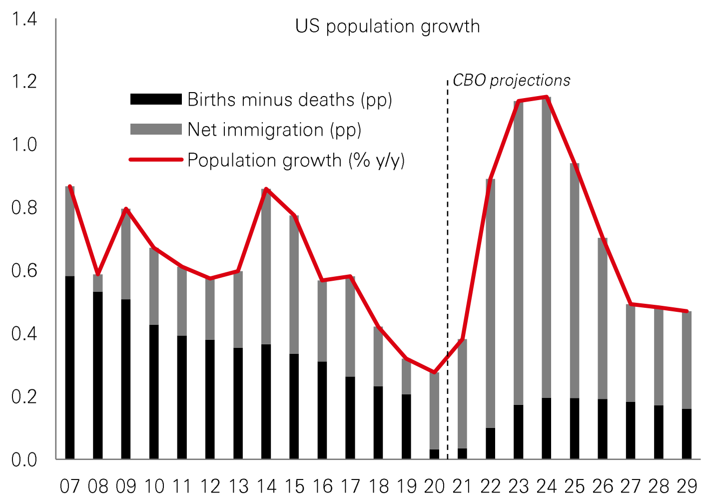
Key risks remain, particularly given the wide rate differentials with the US and the potential for prolonged dollar strength. **The dollar could soften later this year as Fed rate cuts come closer into view,** and that could benefit Asian currencies. A cyclical recovery in Asia's export cycle, particularly in high-technology industries, also provides some upside potential.


### Immigration and the golden path

When trying to explain recent US economic resilience, one overlooked factor may have been the impact of a significant increase in US immigration last year. Recent estimates from the Congressional Budget Office (CBO) suggest that net immigration was 3.3m last year, up from 2.7m in 2022 and 1.2m in 2021, and well above the 900k average between 2010 and 2019.

Population growth is an easy way to guarantee higher rates of economic growth – look at India today. But importantly, an increase in the size of the labour force **helps keep a lid on wage demands and thus underlying inflation pressures**. This is a key tenet of the golden path scenario which incorporates other positive supply-side shocks such as a pickup in productivity growth, or benign geopolitics and subdued commodity prices – typically good news for markets.

The CBO expects another strong year of population growth in 2024. But beyond that, political pressure may mean immigration levels are likely to taper off no matter who occupies the White House.




**Past performance does not predict future returns.**
Source: HSBC Asset Management. Macrobond, Bloomberg. Data as at 11.00am UK time 01 June 2024.

## Key Events and Data Releases

### Last week

| Date | Country | Indicator | Data as of | Actual | Prior |
|---|---|---|---|---|---|
| Mon. 27 May | US/UK | US Memorial Day and UK Spring bank holiday. Financial markets closed | | | |
| Tue. 28 May | US | Conference Board Consumer Confidence Index | May | 102.0 | 97.5 |
| | US | S&P Case Shiller House Price Index, 20 major cities (m-o-m) | Mar | 0.3% | 0.6% |
| Thu. 30 May | US | GDP (q-o-q annualised) | Q1 | 1.3% | 1.6% |
| | US | Pending Home Sales (m-o-m) | Apr | -7.7% | 3.6% |
| | JP | Tokyo CPI ex fresh food & energy (y-o-y) | May | 1.7% | 1.8% |
| | JP | Industrial Production (m-o-m) | Apr | -0.1% | 4.4% |
| Fri. 31 May | CN | Official Manufacturing PMI | May | 49.5 | 50.4 |
| | EZ | CPI (y-o-y) | May (P) | 2.6% | 2.4% |
| | IN | GDP (y-o-y) | Q1 | - | 8.4% |
| | US | Core PCE Deflator (y-o-y) | Apr | - | 2.8% |

**P – Preliminary, Q – Quarter** **CN – China, EZ – Eurozone, IN – India**

### The week ahead

| Date | Country | Indicator | Data as of | Survey | Prior |
|---|---|---|---|---|---|
| Sat. 1 June | IN | Indian General Election | Jun | | |
| Sun. 2 June | MX | Mexican Presidential Election | Jun | | |
| Mon. 3 June | CN | Caixin Manufacturing PMI | May | 51.6 | 51.4 |
| | IN | HSBC Manufacturing PMI | May | - | 58.4 |
| | US | ISM Manufacturing index | May | 49.7 | 49.2 |
| | MX | S&P Global Manufacturing PMI | Jun | - | 49.2 |
| Tue. 4 June | BR | GDP (q-o-q) | Q1 | 0.7% | 0.0% |
| Wed. 5 June | CN | Bank of Canada Interest Rate Decision | Jun | 4.75% | 5.00% |
| | US | ISM Services index | May | 51.0 | 49.4 |
| Thu. 6 June | EZ | ECB interest rate decision | Jun | 3.75% | 4.00% |
| Fri. 7 June | CN | Trade Balance (USD bn) | May | 71.5 | 72.4 |
| | IN | Reserve Bank of India Interest Rate Decision | Jun | 6.50% | 6.50% |
| | US | Change in Non-Farm Payrolls (000s) | May | 180 | 175 |

**P – Preliminary, Q – Quarter** **IN – India, MX – Mexico, EZ – Eurozone, CN – China, BR – Brazil**

Source: HSBC Asset Management. Data as at 11.00am UK time 01 June 2024.

## Market review

Hawkish Fed comments weighed on risk markets last week. Core government bonds sold off modestly with markets factoring in only one 0.25% Fed funds rate cut this year as investors await the European Central Bank council meeting. The DXY US dollar index consolidated. US equities saw widespread weakness with the interest rate-sensitive Russell 2000 underperforming. The Euro Stoxx 50 fell, led by weaker tech stocks. Japan's Nikkei 225 was also on the defensive as supply concerns and interest rate worries weighed on JGBs. In EM, the Shanghai Composite traded sideways despite China's official manufacturing PMI dipping back into negative territory in May. India's Sensex dropped amid caution ahead of the outcome of the general election. In commodities, oil prices were steady ahead of the OPEC+ meeting. Copper weakened on disappointing Chinese data, and gold moved sideways.