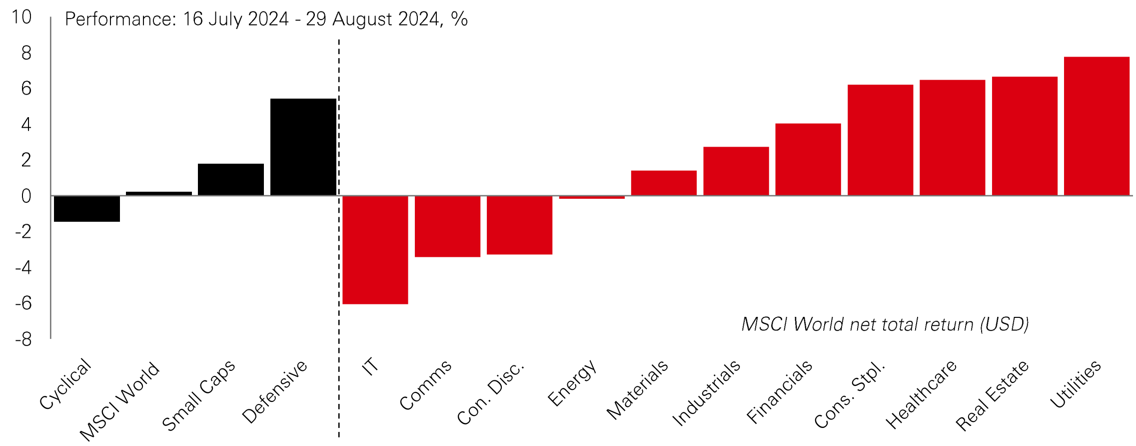
Investment Weekly

2 September 2024

Chart of the week – Unpacking the market rebound



As summer holidays draw to a close, it's not just suitcases we are unpacking. Last month's 'market tantrum' and rapid recovery deserve scrutiny as the rebound masks some important shifts in sectoral performance.

Through 2023 and for the most part of this year, momentum has been concentrated in stocks riding the AI/technology megatrend. But since July, we've had some mixed profits news from the mega-cap tech names, with tech beginning to look like a 'wobbly trade'. And there was more of that last week after the Q2 earnings results from Nvidia, which despite topping forecasts, failed to impress the market. Stretched tech sector valuations are proving to be a challenge.

Since the market peak in mid-July—amid rising recession worries that sparked August's bout of volatility—**the winners have been out-of-favour defensive and rate-sensitive sectors like utilities, real estate (see Market Spotlight), consumer staples and healthcare**. This broadening out of market performance echoes what happened in Q1 when value sectors, like industrials, were holding their own versus quality growth.

What comes next? Investors are getting used to dramatic narrative changes in markets. A complex economic environment and data dependent central bankers have made that par for the course. If central bankers can secure a soft-ish landing, **the 'broadening out' theme can become backable again for investors in H2**.

Rates Outlook →

Exploring the future path of US interest rates policy

Asian FX →

Why EM Asian currencies have rallied this summer

Chinese Macro →

Factors driving China's uneven economic recovery

Market Spotlight

Further room to run for listed real estate

Heightened expectations of imminent US rate cuts have boosted the performance of global listed real estate over the summer. The FTSE Nareit All Equity REITs Index has made double-digit gains over the past two months. **And even after this rally, the sector still offers a valuation discount to other asset classes**. Dividend yields from global real estate equities stand at a premium to both wider equities and developed market government bonds.

With the exception of parts of the office sector, global listed real estate continues to be supported by solid tenant demand and high occupancy levels, which could feed into future dividend growth, and provide a basis for healthy total returns.

Whilst uncertainty over the timing of rate cuts has previously been a drag on sector sentiment, private real estate capital markets are showing signs of re-opening and investment volumes are expected to pick up during the second half of the year.

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. The level of yield is not guaranteed and may rise or fall in the future.
This information shouldn't be considered as a recommendation to buy or sell specific sector/stocks mentioned. Any views expressed were held at the time of preparation and are subject to change without notice. While any forecast, projection or target where provided is indicative only and not guaranteed in any way. Source: HSBC Asset Management. Macrobond, Bloomberg. Data as at 11.00am UK time 30 August 2024.

Lens on...

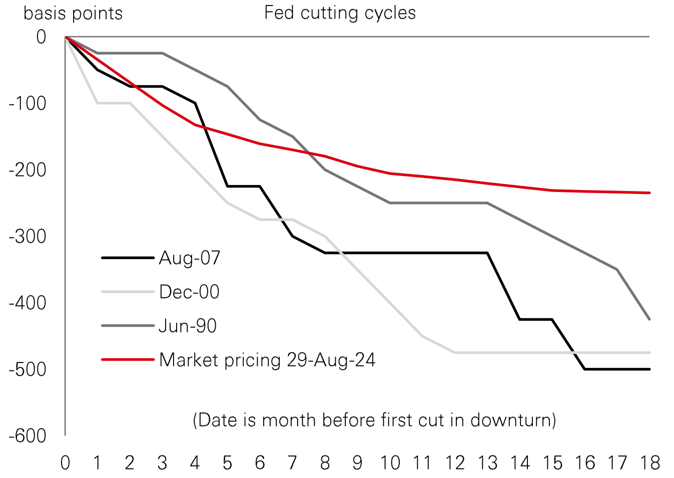
Rate expectations

Jerome Powell's Jackson Hole speech sealed a September rate cut. The only question now seems to be whether it will be a 25bp or a 50bp move, with labour market developments likely to be the determining factor, given the line that the Fed does not "seek or welcome further cooling in labour market conditions".

The market is pricing about a one-third chance of a 50bp cut in September, 100bp of easing by year-end and around 225bp by end-2025.

Moreover, market pricing incorporates a range of possible outcomes, including some probability of a recession. The last three recessions (excluding Covid) have seen 400-500bp of cuts over an 18-month period. So, there is plenty of scope for rate expectations to shift lower if the economy slows quicker than expected.

Yields are still elevated and August's market turbulence proved that Treasuries **haven't lost their role as a hedge against equity market volatility.**

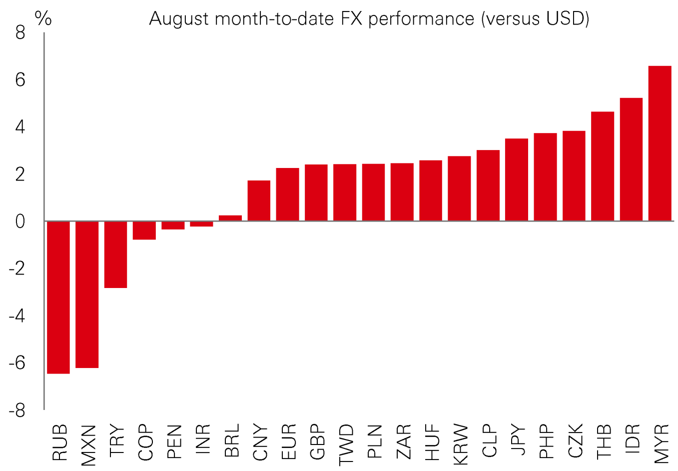


Asian FX boost

Many global FX markets performed well in August as investors ramped up expectations of Fed policy easing, weighing on the US dollar. Within the EM FX universe, Asian currencies have done particularly well, especially in ASEAN (the Malaysian ringgit and Indonesian rupiah are up over 5% month-to-date). But this is not just a dollar story – local factors have provided a boost too.

In Malaysia, the ringgit has enjoyed a tailwind from administrative moves to boost conversion of FX proceeds into local currency, and its economy has staged a strong, broad, recovery this year. There are also signs that it's benefitting from a broadening of the global tech upcycle, as well as rising foreign direct investment.

The central scenario is for the USD to decline further as the Fed eases policy, benefitting EM FX which offers a yield advantage. EM currencies also look cheap. **EM FX appreciation would provide an important tailwind to returns for international investors in local-currency EM assets**. But varied country-level performance is a reminder that a diversified approach to EM investing is crucial.

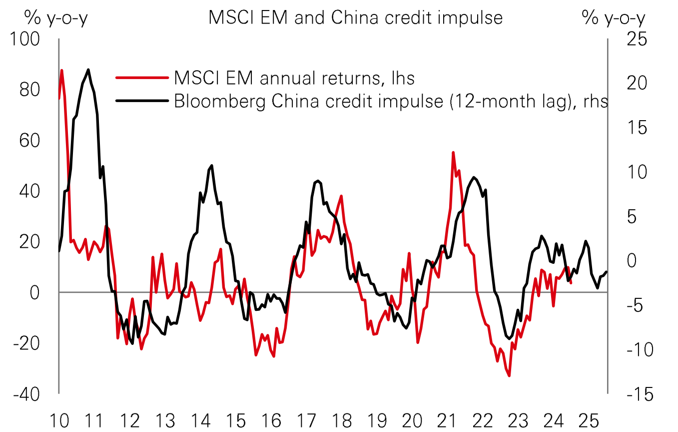


China's uneven recovery

Recent macro data in China continues to point to an uneven recovery, potentially putting this year's ~5% real growth target at risk.

Solid exports and developments in advanced manufacturing have been cushioning the growth slowdown, but soft consumer demand sets the economy up to be more vulnerable to global demand shocks and rising protectionism. The domestic supply-demand imbalance has resulted in excess capacity and fierce competition in some sectors, weighing on corporate profits and exerting deflationary pressures in the economy.

Some analysts think the uneven recovery points to a need for more policy action and forceful implementation to restore confidence and fundamentally reflate the economy. This **policy support could be a catalyst for EM stock market outperformance**. Meanwhile, divergent sectoral growth paths reflect policy priorities for economic transformation toward quality and innovation-led growth, which creates opportunities in sectors prioritised for long-term development.



Past performance does not predict future returns. The level of yield is not guaranteed and may rise or fall in the future. This information shouldn't be considered as a recommendation to buy or sell specific sector/stocks mentioned. Any views expressed were held at the time of preparation and are subject to change without notice. Source: HSBC Asset Management. Macrobond, Bloomberg, Datastream. Data as at 11.00am UK time 30 August 2024.

Key Events and Data Releases

Last week

Date	Country	Indicator	Data as of	Actual	Prior
Mon. 26 August	GE	IFO Business Confidence Index	Aug	86.6	87.0
Tue. 27 August	US	Consumer Confidence Index, Conference Board	Aug	103.3	101.9
	US	S&P Case-Shiller 20 House Prices (m-o-m)	Jun	0.4%	0.4%
Thu. 29 August	US	Pending Home Sales (mom)	Jul	-5.5%	4.8%
	US	GDP, 2nd Estimate (q-o-q annualised)	Q2	3.0%	2.8%
Fri. 30 August	JP	Unemployment Rate	Jul	2.7%	2.5%
	JP	Tokyo CPI excluding food and energy (y-o-y)	Aug	1.3%	1.1%
	EZ	HICP, Flash (y-o-y)	Aug	2.20%	2.6%
	EZ	Unemployment Rate	Jul	6.4%	6.5%
	US	PCE Price Index (y-o-y)	Jul	-	2.5%
Sat. 31 August	CN	Manufacturing PMI	Aug	49.5	49.4

Q – Quarter **GE – Germany, US – United States, JP – Japan, EZ – Eurozone, CN – China**

The week ahead

Date	Country	Indicator	Data as of	Survey	Prior
Mon. 02 September	BR	S&P Global Manufacturing PMI	Aug	-	54.0
	MX	S&P Global Manufacturing PMI	Aug	-	49.6
	KO	CPI (y-o-y)	Aug	2.0%	2.6%
	ID	CPI (y-o-y)	Aug	2.1%	2.1%
	CN	Manufacturing PMI, Caixin	Aug	50.0	49.8
Tue. 03 September	US	ISM Manufacturing Index	Aug	47.5	46.8
	BR	GDP (q-o-q)	Q2	0.9%	0.8%
Wed. 04 September	US	JOLTS Job Openings	Jul	8.00m	8.18m
	CN	Caixin Services PMI	Aug	52.1	52.1
Thu. 05 September	US	ISM Services Index	Aug	50.9	51.4
Fri. 06 September	US	Change in Non-Farm Payrolls	Aug	160k	114k

BR – Brazil, MX – Mexico, KO – South Korea, ID – Indonesia, CN – China, US – United States

Source: HSBC Asset Management. Data as at 11.00am UK time 30 August 2024. This information shouldn't be considered as a recommendation to buy or sell specific sector/stocks mentioned. Any views expressed were held at the time of preparation and are subject to change without notice.

Market review

Risk assets were resilient as investors digested Q2 results from Nvidia, the US's largest chip maker and a major focus in the current AI/tech megatrend. Core government bonds were range-bound ahead of key US employment data, with the DXY US dollar index pausing for breath after recent declines. Despite some volatility in tech stocks, US equity markets were on course to finish broadly flat. The Stoxx Euro 600 index reached new highs, and Japan's Nikkei 225 edged higher as the yen softened versus the US dollar. In emerging markets, Korea's Kospi index was buffeted by US tech weakness, but Taiwan's weighted SE index was resilient. Mainland China's Shanghai composite index was little changed, while India's Sensex index rose to a new all-time high. In commodities, oil prices were supported by supply worries in Libya. Gold remains close to a record high, with copper also edging higher.

Important Information

This document has been issued by The Hongkong and Shanghai Banking Corporation Limited (the "Bank") in the conduct of its regulated business in Hong Kong and may be distributed in other jurisdictions where its distribution is lawful. It is not intended for anyone other than the recipient. The contents of this document may not be reproduced or further distributed to any person or entity, whether in whole or in part, for any purpose. This document must not be distributed to the United States, Canada or Australia or to any other jurisdiction where its distribution is unlawful. All non-authorised reproduction or use of this document will be the responsibility of the user and may lead to legal proceedings.

This document has no contractual value and is not and should not be construed as an offer or the solicitation of an offer or a recommendation for the purchase or sale of any investment or subscribe for, or to participate in, any services. The Bank is not recommending or soliciting any action based on it.

The information stated and/or opinion(s) expressed in this document are provided by HSBC Global Asset Management Limited. We do not undertake any obligation to issue any further publications to you or update the contents of this document and such contents are subject to changes at any time without notice. They are expressed solely as general market information and/or commentary for general information purposes only and do not constitute investment advice or recommendation to buy or sell investments or guarantee of returns. The Bank has not been involved in the preparation of such information and opinion. The Bank makes no guarantee, representation or warranty and accepts no responsibility for the accuracy and/or completeness of the information and/or opinions contained in this document, including any third party information obtained from sources it believes to be reliable but which has not been independently verified. In no event will the Bank or HSBC Group be liable for any damages, losses or liabilities including without limitation, direct or indirect, special, incidental, consequential damages, losses or liabilities, in connection with your use of this document or your reliance on or use or inability to use the information contained in this document.

In case you have individual portfolios managed by HSBC Global Asset Management Limited, the views expressed in this document may not necessarily indicate current portfolios' composition. Individual portfolios managed by HSBC Global Asset Management Limited primarily reflect individual clients' objectives, risk preferences, time horizon, and market liquidity.

The information contained within this document has not been reviewed in the light of your personal circumstances. Please note that this information is neither intended to aid in decision making for legal, financial or other consulting questions, nor should it be the basis of any investment or other decisions. You should carefully consider whether any investment views and investment products are appropriate in view of your investment experience, objectives, financial resources and relevant circumstances. The investment decision is yours but you should not invest in any product unless the intermediary who sells it to you has explained to you that the product is suitable for you having regard to your financial situation, investment experience and investment objectives. The relevant product offering documents should be read for further details.

Some of the statements contained in this document may be considered forward-looking statements which provide current expectations or forecasts of future events. Such forward looking statements are not guarantees of future performance or events and involve risks and uncertainties. Such statements do not represent any one investment and are used for illustration purpose only. Customers are reminded that there can be no assurance that economic conditions described herein will remain in the future. Actual results may differ materially from those described in such forward-looking statements as a result of various factors. We can give no assurance that those expectations reflected in those forward-looking statements will prove to have been correct or come to fruition, and you are cautioned not to place undue reliance on such statements. We do not undertake any obligation to update the forward-looking statements contained herein, whether as a result of new information, future events or otherwise, or to update the reasons why actual results could differ from those projected in the forward-looking statements.

Investment involves risk. It is important to note that the capital value of investments and the income from them may go down as well as up and may become valueless and investors may not get back the amount originally invested. Past performance contained in this document is not a reliable indicator of future performance whilst any forecasts, projections and simulations contained herein should not be relied upon as an indication of future results. Past performance information may be out of date. For up-to-date information, please contact your Relationship Manager.

Investment in any market may be extremely volatile and subject to sudden fluctuations of varying magnitude due to a wide range of direct and indirect influences. Such characteristics can lead to considerable losses being incurred by those exposed to such markets. If an investment is withdrawn or terminated early, it may not return the full amount invested. In addition to the normal risks associated with investing, international investments may involve risk of capital loss from unfavourable fluctuations in currency values, from differences in generally accepted accounting principles or from economic or political instability in certain jurisdictions. Narrowly focused investments and smaller companies typically exhibit higher volatility. There is no guarantee of positive trading performance. Investments in emerging markets are by their nature higher risk and potentially more volatile than those inherent in some established markets. Economies in emerging markets generally are heavily dependent upon international trade and, accordingly, have been and may continue to be affected adversely by trade barriers, exchange controls, managed adjustments in relative currency values and other protectionist measures imposed or negotiated by the countries with which they trade. These economies also have been and may continue to be affected adversely by economic conditions in the countries in which they trade. Mutual fund investments are subject to market risks. You should read all scheme related documents carefully.

Issued by The Hongkong and Shanghai Banking Corporation Limited