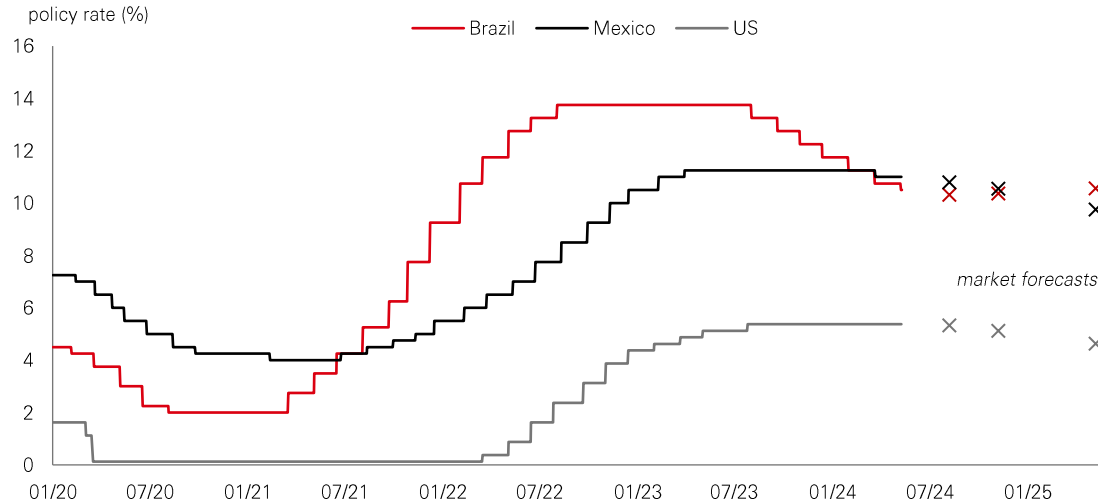


Investment Weekly

13 May 2024

Chart of the week – Fed to EM spillovers



EM central banks were ahead of the curve in the global fight against inflation, and many have already started to cut rates. But last week’s central bank meetings in Mexico and Brazil highlighted a more cautious approach. Although Banco Central do Brasil cut rates for the seventh consecutive meeting, the 0.25% reduction was lower than the usual 0.50%. Meanwhile, Banco de Mexico kept rates on hold following a 0.25% cut in March, its first in the easing cycle.

Growing hesitancy to ease may reflect domestic factors. This includes strong labour markets which are keeping wage growth elevated. **But the recent shift in Fed rate expectations is also having an impact.** Front of mind have been concerns over currency weakness and the implications for imported inflation. The Brazilian real is down 4% year-to-date and concerns about capital outflows are likely to have been an issue.

Markets now expect little further easing in Brazil and Mexico over the next year, while the schedule for monetary easing in emerging Asia has been pushed back. This weighs on the outlook for EM growth and near-term EM asset class performance too. Brazil’s earnings momentum has been slipping. But the good news is many EM economies are better insulated against tight external financial conditions than in the past. EM asset class valuations remain relatively cheap, providing a margin of safety for investors. Bond traders will benefit from high-for-a-bit-longer interest rates too. And **once the Fed does ease, the investor narrative and the EM policy stance can change quickly.**

Chinese Equities →
Exploring China’s recent stock market rebound

US Dollar Outlook →
Understanding the bearish signals for the US dollar

Market Spotlight

Stock markets and social unrest

For many countries around the world, the annual May Day holiday is a traditional celebration of workers’ rights dating back to the 1900s. Over time – and particularly in periods of economic stress – it has been the focal point for strikes, demonstrations, rallies, and riots.

From an investment perspective, serious social unrest – driven by politics or socio-economics – can upset confidence, hurt growth, and damage stock prices. To understand this better, IMF research has explored the consequences for both economies and markets. One study found that countries experiencing unrest saw GDP remain on average 0.2 percentage points below the pre-shock baseline after 18 months.

Another study examined 156 events and found that while trading volumes often spike, the impact on stock markets was negligible in countries with open and democratic institutions. But for those with more authoritarian regimes, it was damaging, with returns falling on average by 2% within three days, and by about 4% over the following month. Overall, the research supports the view that social unrest can disrupt economies, but markets in countries with more open institutions are better at looking past them.

Sell in May? →
Why investors may need to be cautious going forward

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.

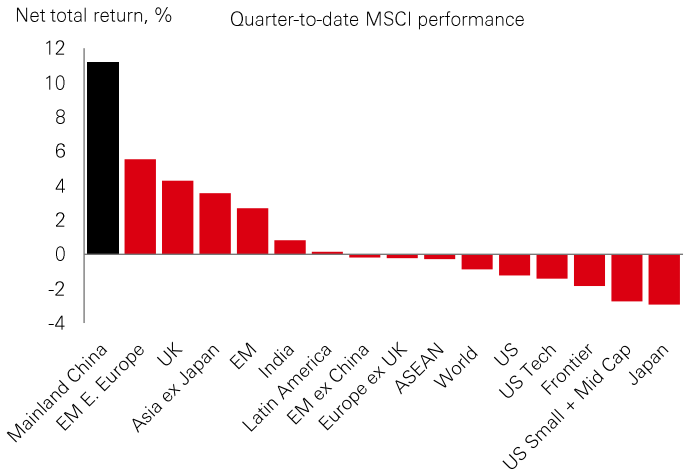
Source: HSBC Asset Management. Macrobond, Bloomberg. Data as at 11.00am UK time 12 May 2024.

Mainland China's stock rebound

In recent weeks, there's been a reversal of fortune for Chinese stocks, outperforming indices across both developed and emerging markets. Crucially, **policy measures have shored up confidence**, with the Politburo signalling ongoing assistance on both the monetary and fiscal fronts.

Targeted measures have also been ramped up. Plans for "high quality" development of capital markets promise better protection for investors. Authorities are looking to reinforce Hong Kong's position as a financial hub, and support technology firms and the troubled real estate sector. And there have been efforts to encourage firms to boost share buybacks and dividend payouts.

Despite the turnaround, challenges remain, primarily property sector weakness and soft domestic demand. Deflationary pressures weigh on the profit outlook, but valuations remain very attractive, so there is still a good chance that piecemeal policy action continues to boost investor sentiment. In terms of earnings prospects, high-tech firms and high-quality state-owned enterprises look to be the bright spots.

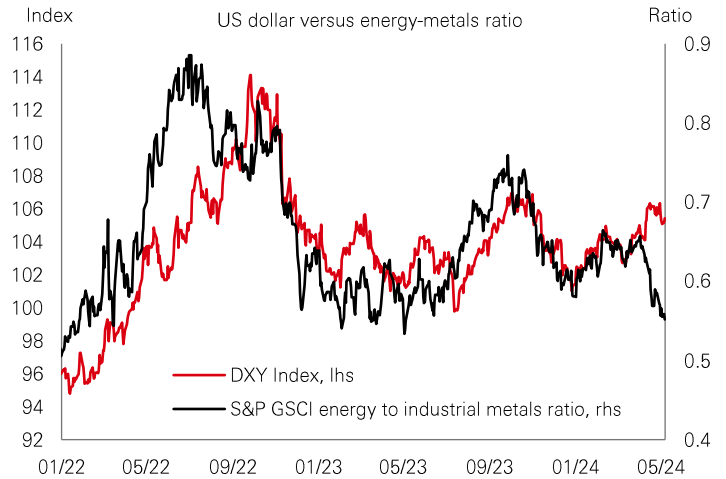


Commodities and the dollar

As one would expect, the repricing of US rate expectations has boosted the US dollar. The DXY index is up about 4% year-to-date.

Asian and European trade and survey data suggest a turnaround in the global manufacturing cycle, which benefits export powerhouses Europe and Japan. This may translate to a more hawkish-than-expected policy trajectory for the ECB and BoJ over the coming quarters. A Fed cut in September could shift the narrative away from high-for-longer US rates.

Commodity markets also point to a possible shift in the relative fortunes of the dollar. Since early April, the ratio of energy to industrial metals prices has fallen, which should result in a weaker dollar. This is because a lower ratio – which this time around reflects a combination of falling energy prices and rising metals prices – is disproportionately better news for Europe and Japan which are big energy importers and more sensitive to improvements in the global cycle (which higher metals prices potentially signal).

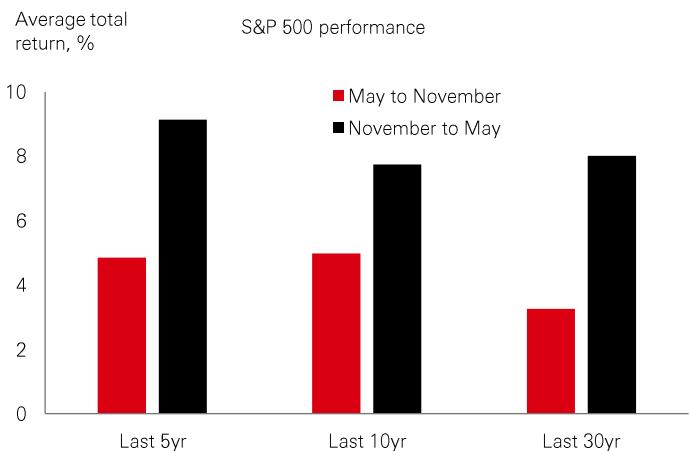


Sell in May and go away?

With the S&P 500 up around 25% since end-October and markets recently regaining momentum following April's drawdown, the stock market wisecrack "sell in May and go away" may hold special significance this year. Over the past 5, 10 and 30 years, index total returns are significantly lower in the six-month period from May to November, and there are plenty of challenges facing investors in the current environment.

Valuations in many parts of the DM risk asset universe look increasingly stretched. The DM growth outlook is hobbled by restrictive monetary policy settings. Tighter-for-longer policy at the Fed could have meaningful effects on global financial stability. And lower inflation is usually linked to weaker corporate pricing power.

For now, resilient economic activity and corporate earnings are bulwarks against big risk asset drawdowns. And Fed cuts – once they come – can help. But elevated macro and geopolitical uncertainty makes it crucial to protect portfolios against adverse scenarios.



Past performance does not predict future returns.

Source: HSBC Asset Management. Macrobond, Bloomberg. Data as at 11.00am UK time 12 May 2024.



Key Events and Data Releases

Last week

Date	Country	Indicator	Data as of	Actual	Prior
Mon. 6 May	CN	Caixin Services PMI	Apr	52.5	52.7
	IN	HSBC Services PMI	Apr (F)	60.8	61.7 (P)
	BR	S&P Global Services PMI	Apr (P)	53.7	54.8
Tue. 7 May	GE	Factory Orders (mom)	Mar	-0.4%	-0.8%
Wed. 8 May	AU	RBA Interest Rate Decision	May	4.35%	4.35%
	SW	Riksbank Interest Rate Decision	May	3.75%	4.00%
	BR	Banco Central do Brasil Interest Rate Decision	May	10.50%	10.75%
Thu. 9 May	CN	Trade Balance (USD bn)	Apr	72.4	58.6
	UK	BoE Interest Rate Decision	May	5.25%	5.25%
	MX	Banco de Mexico Interest Rate Decision	May	11.00%	11.00%
	MX	CPI (yoy)	Apr	4.7%	4.4%
Fri. 10 May	UK	GDP (qoq)	Q1	0.6%	-0.3%
	IN	Industrial Production (yoy)	Mar	5.2%	5.7%

P – Preliminary, F – Final, Q – Quarter

CN – China, IN – India, MX – Mexico, AU – Australia, SW – Sweden, BR – Brazil, GE – Germany

The week ahead

Date	Country	Indicator	Data as of	Survey	Prior
Sat. 11 May	CN	CPI (yoy)	Apr	0.2%	0.1%
Mon. 13 May	EZ	Q1 Earnings			
	IN	CPI (yoy)	Apr	4.8%	4.9%
Tue. 14 May	US	NFIB Business Confidence Survey	Apr	88.1	88.5
Wed. 15 May	EZ	GDP (qoq)	Q1 (P)	0.3%	0.3%
	US	CPI (yoy)	Apr	3.4%	3.5%
	US	Retail Sales (mom)	Apr	0.4%	0.7%
Thu. 16 May	US	Housing Starts (mom)	Apr	9.0%	-14.7%
	US	Industrial Production (mom)	Apr	0.2%	0.4%
	JP	GDP (qoq)	Q1 (P)	-0.4%	0.1%
Fri. 17 May	CN	Retail Sales (yoy)	Apr	3.8%	3.1%
	CN	Industrial Production (yoy)	Apr	5.4%	4.5%

P – Preliminary, Q – Quarter

CN – China, EZ – Eurozone, IN – India, JP – Japan

Source: HSBC Asset Management. Data as at 11.00am UK time 12 May 2024.



Positive sentiment prevailed in risk markets last week, aided by a pickup in US rate cut expectations ahead of key US CPI data. Core government bonds consolidated with 10-year Treasuries hovering around 4.5%. Sweden's central bank, the Riksbank, cut rate by 0.25%, highlighting diverging central bank stances. In the US, the S&P 500 posted decent gains, continuing its rebound from a weak performance in April, but it lagged Europe, with the Euro Stoxx 50 pushing higher on positive Q1 earnings news. Japan's Nikkei 225 edged lower amid hawkish BoJ comments hinting at faster-than-expected interest rate hikes. In EM, the Shanghai Composite continued to see positive momentum amid improving investor confidence, while India's Sensex index weakened on rising political jitters. In commodities, oil prices traded sideways while gold rallied on lower US real yields.

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.

Copyright © The Hongkong and Shanghai Banking Corporation Limited 2024. All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, on any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of The Hongkong and Shanghai Banking Corporation Limited.

Issued by The Hongkong and Shanghai Banking Corporation Limited