HSBC IO 2021 – July Monthly View
Willem Sels Video

Markets have been focused on the outlook for inflation, with US CPI recently hitting 5%, and they have been very interested in the reaction function of the Fed and other central banks.

So when we heard from the Fed that they would potentially hike interest rates twice in 2023, and had started to talk about tapering, the bond market rallied but the equity market took a small hit. Now, what the Fed is actually saying, is that they don't want to be behind the curve on inflation and they will take gradual steps to normalize policy.

That should reduce the risk that inflation becomes a long term problem, it should be good for bond markets and keep Treasury yields low. That, in turn, should be positive for credit and emerging market bonds.

Now, any policy normalization by the Fed will be gradual and therefore they won't crush the economic recovery that we are currently seeing.

And that's a favourable combination between this low yield environment and the positive economic growth, driven by the opening process, consumption and services.

So therefore, we maintain our risk-on approach with an overweight in equities and a cyclical sector stance.

Following the rally in investment grade, driven by the fall in Treasury yields and the tightening of credit spreads, we have taken some profit there, moving the asset class to neutral because of the low absolute level of yields.

But it's still important to maintain investment grade holdings in a diversified portfolio. That being said, we now prefer high yield and emerging market bonds, especially EM corporates.