Video Transcript

HSBC Investment Outlook – May 2024 (Issued 25 April 2024)
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As we get closer to June ‚Äì which is the point where many of us were looking for the first rate cut, it seems that bond markets have been getting some stage fright. And that's because the latest US CPI figure was higher than expected. And Fed Chair Powell said there is not yet enough evidence of sufficient progress towards the inflation target to allow for imminent rate cuts. So clearly, risks of delayed Fed rate cuts have increased.

But the bond market's repricing has gone too far, in our view. Earlier this year they priced in up to seven rate cuts, and now less than two. Most components of CPI have fallen back substantially already, and the Fed has been holding rates constant at quite a restrictive level for longer than in the past cycles. So we continue to look for rate cuts this year and therefore put our cash to work in bonds to lock in those attractive yield levels.Holding cash will involve an increasing opportunity costs compared to bonds as cash rates fall, and quality bonds have some value in portfolios of course, as geopolitical risks remain elevated. For stocks, we view sticky inflation and stronger-than-expected global growth as two sides of the same coin.

Economists have been upgrading US growth forecasts, whilst PMIs in Europe are recovering. Following a strong run till March, stocks were, of course, hit by rising bond yields in April, but that headwind should fade. And as we are in the midst of the earnings season, we think profits will exceed the quite cautious analysts expectations thanks to that cyclical tailwind.

And because of the broadening economic momentum, we've also been broadening our equity exposure both from a sector perspective, beyond technology and from a geographical perspective beyond the US. And that, of course, includes our overweights in Japan and India, Indonesia, South Korea and Mexico.

And we even upgraded Eurozone stocks to neutral last month as momentum has already bottomed there too. Now, talking of Europe, we expect further weakness for the euro and for Sterling compared to the US dollar and hold on to our strong US dollar view. And that's because we could see slightly earlier or more rate cuts in Europe compared to the US, and the US economy still looks better than in Europe, supporting the greenback.