

HSBC Global Private Banking – March 2024 Monthly View

Adding to global stocks amid positive growth and rate fundamentals

Willem Sels

We've been putting our cash to work as we believe the global growth and inflation mix is favourable. Economic growth has been surprising to the upside, especially in the US so markets worry even less about recession risks now and are increasingly hopeful about earnings growth. And these of course are positives for equities. The other positive, in our view, is that markets have become more realistic about rate cuts. As you will remember, we disagreed with the market earlier this year when they were pricing in more than six rate cuts starting in March. And in part because of the strong data, markets now expect the first rate cut to only happen in June - like us - and they are pricing in three or four cuts this year. We are looking for three. What's interesting too is that equities had been resilient even as the rate market repriced, and for us, that's another sign of market confidence in the cyclical and the structural factors that are supporting earnings growth.

So as a result, we are moving to a mild overweight on global equities. And as you will have guessed, we do this firstly, by adding to our existing US overweight, which is a market that we think will continue to outperform. The cyclical momentum in the US is stronger than in Europe, US margins continue to expand, the Re-Industrialisation of North America is giving structural support, and even though there can be some volatility in the news flow - earnings in the large US tech sector benefit from a structural tailwind. The other country we are adding is Japan, where we move from a neutral to a mild overweight position.

Now, Japan outperformed the global indices already last year, but remains a relatively cheap market. And more importantly, we think some of the factors supporting the positive momentum are structural in nature. The wage negotiations should support the reflationary process, and there are strong signs of better corporate governance, which leads to better capital efficiency and higher dividend payouts. Japan is also well-positioned in a world of increased digitalisation, automation, and AI. And lastly, Japanese stocks have an interesting diversification character within portfolios. So it is a market with low volatility, especially in US dollar terms and it shows low correlation with global indices and global financial conditions. So our strategy overall has become more risk-on as we adopt a mild overweight in global equities.

But we remain selective and focussed on quality across bonds and equity markets, and our four priorities remain largely in line with those from our investment outlook, namely extending bond duration ahead of policy easing. Secondly, broadening US equity exposure to benefit from that soft landing. Thirdly, hedging tail risks via alternatives, multi-asset and volatility strategies. And lastly, we change our final priority action to Diversifying Asian equity exposure, which includes overweights in India, Indonesia, South Korea and now also Japan.