HSBC

Press Release

5 January 2023

HSBC GLOBAL PRIVATE BANKING 2023 INVESTMENT OUTLOOK

LOOKING FOR THE SILVER LINING

HSBC Global Private Banking ("GPB") expects peaking interest rates, a weaker USD, China's economic reopening and solid ASEAN growth to support a more positive Asian market for 2023. Against the backdrop of synchronised global downturn, Asia ex-Japan stands out as the only region projected to deliver growth acceleration in 2023. Within Asian equities, it is overweight in mainland China, Hong Kong, Indonesia and Thailand, and underweight in South Korea and Taiwan. After a turbulent year of broad-based market selloff in 2022, HSBC GPB finds substantial improvement in long-term expected returns from bonds versus cash and equities. It holds a full overweight position in investment grade corporate bonds across all regions with preference for short-to-medium maturities. Expecting the global economic slowdown will remain a key headwind for corporate earnings, it stays mildly underweight in global equities with focus on building recession resistant equities portfolios. It holds overweight position in US, Asian and Latin American equities and remains underweight on Eurozone and UK stocks. It believes the USD has already peaked and holds a bullish view on the JPY and SGD within the Asian currency bloc. It maintains a tactical overweight in hedge funds and strategic allocation to private assets to diversify portfolios and mitigate market uncertainties.

Silver Linings – Peaking US Rates, Softer USD, China's Growth Recovery

HSBC GPB forecasts global GDP growth will decelerate to 1.9% in 2023 from 3.0% in 2022 while global CPI inflation will moderate to 6.6% in 2023 from 8.4% in 2022 as a result of hawkish central bank tightening over the past year. Against the backdrop of synchronised global downturn, Asia ex-Japan stands out as the outperformer and the only region projected to deliver GDP growth acceleration to 4.3% in 2023 from 3.5% in 2022, driven by economic reopening in mainland China and Hong Kong as well as solid growth in the ASEAN region.

Fan Cheuk Wan, Chief Investment Officer for Asia, Global Private Banking and Wealth at HSBC, says: "We see silver linings in the Asian market outlook for 2023 due to peaking US rates, a softer USD and China's improved recovery outlook. After China made two significant policy pivots to ease the Zero COVID restrictions and step up funding support for the property market, we now forecast China GDP growth to rebound to 5.0% in 2023 and further accelerate to 5.8% in 2024, up from 3.0% in 2022. Another important supportive driver for the Asian markets is resilient performance of the ASEAN economies, which benefit from the global supply chain reorientation, stronger intra-regional trade and China's economic reopening."

"Looking ahead into 2023, a crucial inflection point for the markets is the upcoming end of the Fed's tightening cycle. US CPI inflation has fallen short of consensus estimates for two consecutive months in October and November and the Fed has moderated the pace of interest rate hike to 50bp in December 2022. We expect a final 50bp rate hike in February 2023 before the Fed pauses the tightening. Given sticky core services inflation, we expect the Fed to keep the peak rate at 4.875% throughout 2023 before it cuts policy rate by 25bps in Q2 2024 and 25bps in Q3 2024, bringing the federal funds target range back down to 4.25-4.50% by the end of 2024. We believe peaking US rates and easing inflation in 2023 should create a more favourable market environment for bonds, supporting our overweight allocation to fixed income in the first half of 2023."

"As the economic growth cycle lags the interest rate cycle, we would rather take rate risk than cyclical risk in our portfolios. After the sharp spike in bond yields in 2022, we find substantial improvement in long-term expected returns from bonds versus cash and equities. Hence we are overweight in fixed income and hold a full overweight position in investment grade bonds across developed markets, emerging markets and Asia with preference for short-to-medium (2-5 years) duration. Historically, returns of equities and bonds become less correlated when the economic cycle slows, improving the diversification benefits of high-grade bonds in the current global downturn."

"From a cyclical perspective, we foresee a possible bottoming of global economic data around Q2 or Q3 2023, but the global slowdown will remain a key headwind for corporate earnings in the coming months. We expect consensus earnings forecasts will come down further and may bottom around Q2 2023. To build recession resistant equities portfolios, we hold overweight position in markets which are more resilient to recession risks, including the US, Asia and Latin America. We stay underweight stocks in the Eurozone and UK as the two regions are expected to stay in recession at least until mid-2023 with elevated inflation. After the sharp correction in equity valuations in 2022, we selectively position in undervalued quality stocks and structural winners exposed to the net zero transition, digital transformation and secular growth in Asia."

"We believe the USD bull run has come to an end on the back of peaking US rates. Rate differentials between the USD and other G10 currencies are unlikely to widen further, and this removes the main tailwind for USD. We hold a neutral view on the USD and are bullish on the JPY, SGD and BRL. We expect neutral outlook for the EUR, GBP and RMB against a softer USD in 2023. We further diversify portfolios and mitigate market volatility by staying overweight in hedge funds with focus on macro and multi-strategy managers. We also maintain the strategic allocation to private equity and private credit to capture uncorrelated returns."

China Reopening and Solid ASEAN Growth Supportive of 2023 Asia Outlook

HSBC GPB holds an overweight position on Asia ex-Japan equities with overweight in mainland China, Hong Kong, Indonesia and Thailand to reflect their positive growth outlook in 2023. It forecasts a strong cyclical rebound in Asia growth starting from Q2 2023, following an estimated -0.5% year-on-year China GDP contraction in Q1 2023 due to short-term disruptions caused by the ongoing wave of COVID outbreaks following the removal of Zero COVID restrictions.

"To support growth recovery, the People's Bank of China will be one of the very few global central banks to ramp up monetary stimulus in 2023. We expect another 50bp in reserve requirement ratio reduction in H1 2023 to provide liquidity support following the 25bp cut announced in December 2022. We also forecast a 5bp reduction in 1-year Loan Prime Rate in H1 2023 to provide a stronger policy signal of a monetary easing bias. Within the North Asia equity markets, we are overweight mainland China and Hong Kong and underweight South Korea and Taiwan to reflect headwinds from the downturn in the semiconductor and technology hardware sectors," adds Fan.

James Cheo, Chief Investment Officer for Southeast Asia, Global Private Banking and Wealth at HSBC, points out ASEAN's resilient growth will continue to provide strong support for the Asian economy in 2023. "The ASEAN stock markets have recorded one of the strongest earnings growth in 2022, outperforming the global and regional peers, and we expect this trend is likely to sustain in 2023. Within the ASEAN equity markets, we are overweight Indonesia and Thailand as they witness the strongest earnings momentum in the region."

“In Indonesia, robust domestic demand and elevated commodity prices continue to support strong investment and consumption growth. Thailand will stand out as the only ASEAN economy projected to see growth acceleration to 3.8% in 2023 from 3.2% in 2022, thanks to continued benefits from the reviving tourism boom. Thailand is also a geared beneficiary of China’s economic reopening, as it remains a top travel destination preferred by mainland Chinese tourists. Although Singapore’s open economy won’t be able to fully escape the headwinds of the global trade slump, its robust services sector and resilient domestic demand remains strong drivers for growth.”

Malaysia’s Economic and Market Outlook

Cheo points out that 2022 has been a solid year for the Malaysia economy, recovering at a robust pace. “The country’s external engine has been remarkably robust, benefitting from its diversified export base. Although some commodity prices have cooled, elevated commodity prices are still boosting Malaysia’s commodity exports. Furthermore, Malaysia’s electronic exports has been robust as it is a major producer of automotive chips. Looking into 2023, the Malaysia’s export will likely slowdown from the blistering pace in 2022. The good news is that Malaysia’s domestic demand is likely to remain robust and supportive of overall growth. The labor market is key, unemployment rate is low and wage growth is healthy which should be supportive of domestic consumption. Most of the high frequency indicators like retail sales have surpassed pre-pandemic levels, while the tourism sector should continue to improve in 2023. We expect Malaysia’s economy to moderate and grow by 4% in 2023.”

“Malaysia’s headline inflation looked to have peaked, but core inflation can remain sticky which will likely keep Bank Negara Malaysia (BNM) on its tightening path for a while longer. BNM policy calibration will be very much dependent on the next few inflation reading. Therefore, we expect BNM to stay on its tightening path a little longer, delivering another 75bp in hikes in 1H23, thereafter taking a pause through 2024. With the peaking of the USD strength, we think that USDMYR could be at 4.35 by the end of 2023.”

“We are neutral on Malaysia equities. Malaysia has a high level of reliance on exports and a slowdown in global growth poses risks for the equity market. Consensus earnings for Malaysia is expected to be healthy. The valuation of the equity market is trading below its historical average. Our preferred sectors for Malaysia will be on selected banks and consumer companies.”

Top Trend of Remaking Asia’s Future – Q1 2023 High Conviction Themes

HSBC GPB identifies four top investment themes to capture the attractive growth and income opportunities in Asia.

(1) Asia’s Reopening Winners

“We expect North Asian economies, particularly mainland China, Hong Kong and Japan, should feel the largest impact of reopening in 2023 because their border reopening and relaxation of COVID restrictions have lagged behind the rest of the world. With mainland China’s rapid exit from the Zero COVID policy and expected reopening of the mainland China-Hong Kong border in early 2023, we see re-rating opportunities in the reopening beneficiaries in both mainland China and Hong Kong. Southeast Asia should continue to benefit from the strong momentum of overseas travellers’ inflow and tourism boom. In Thailand, tourist arrivals have climbed to only half of pre-COVID levels.”

“Riding on the reopening tailwinds, we position in quality industry leaders in the travel, airlines, hospitality, food and beverages, Macau gaming and mass consumption sectors in Asia. According to World Travel & Tourism Council estimates, Asia Pacific is expected to recover back to the pre-pandemic levels in terms of contribution of travel and tourism to GDP in 2023. GDP of Asia's travel and tourism sectors is forecast to grow at annual average rate of 8.5% over the coming decade, doubling the pace of 4% growth for the Asian economy," says Cheo.

(2) ASEAN Tigers

"We have launched a new theme on ASEAN Tigers, capturing growth opportunities in consumption companies, infrastructure, ASEAN banks and Singapore REITs. Over the past decade, the ASEAN economies have undergone a healthy reset with deleveraging and continued infrastructure investment. As a result, ASEAN companies have developed resilient fundamental strengths and stronger balance sheets to withstand headwinds from higher US rates."

"ASEAN is now a more economically integrated region through the Regional Comprehensive Economic Partnership. We believe ASEAN economies can also benefit from the reorientation and regionalisation of Asia's supply chains amid geopolitical uncertainties. Selected commodity-exporting ASEAN markets, such as Indonesia, are proving to be resilient to recession risk and inflation shock. Indonesia is the world's largest nickel producer and biggest coal producer in ASEAN, it benefits from high commodity prices and fast growing demand for nickel from the electric vehicle (EV) industry," notes Cheo.

(3) Asia's Green Transformation

"For structural growth opportunities, our theme on Asia's Green Transformation stays focused on opportunities from the energy transition and independence, green infrastructure development and innovation of EV technologies in the region. Pure EV plays, some conventional original equipment manufacturers and battery companies can benefit from the net zero transition. We expect China's annual solar installed capacity to reach 115GW by 2023 and increase at a 15% CAGR to 150GW in 2025. Hence, we favour renewable energy equipment makers of solar, wind and green hydrogen, smart grid manufacturers and leaders in the EV supply chains."

"The World Bank estimates China needs to invest up to USD17 trillion for energy transition, green infrastructure and technologies to meet its carbon neutrality goals by 2060. China is growing into a global powerhouse in EV, and one out of three new cars sold in China is now electric. In India, investments of around USD300bn will be needed to complete the 500GW of renewable energy capacity target by 2030. The Southeast Asian countries are also rushing to issue green bonds to finance eco-friendly projects. In ASEAN and East Asia, the amount of sustainable bonds outstanding accounted for about 18% of world's total, trailing only Europe as the second-largest market, according to Asian Development Bank," adds Cheo.

(4) Asian Quality Credit

"Positioning for moderating inflation and peaking US rates, we remain bullish on the theme on Asian Quality Credit, especially after sharp yield pick-up across the Asian credit markets in 2022. This theme stays focused on high quality corporate bonds in Asia, including high-grade Singapore and Hong Kong corporate bonds, Indonesia hard currency bonds and Chinese TMT bonds. We continue to see attractive carry opportunities in Indonesia's quasi-sovereign investment grade bonds, thanks to the country's improving fiscal position in a strong coal cycle," says Cheo.

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Disclosure
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