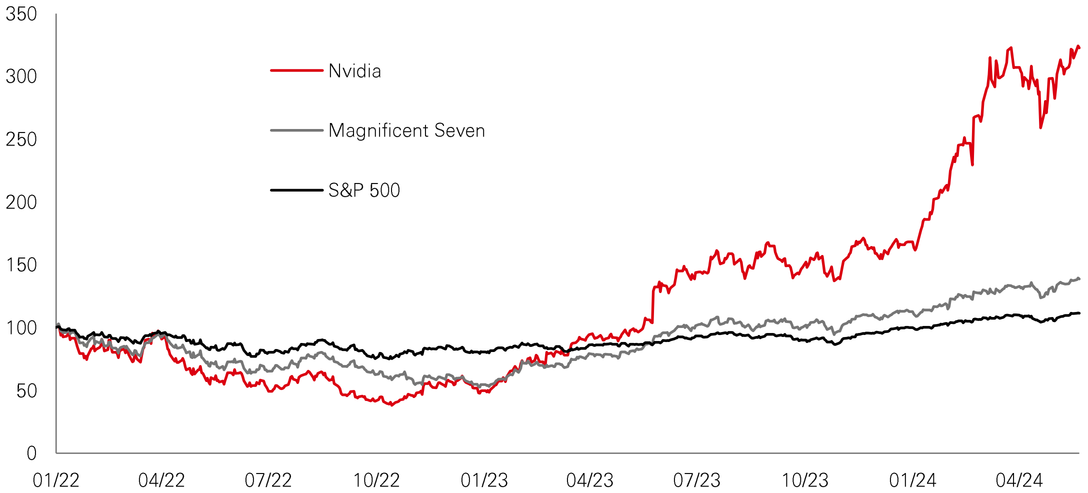
Investment Weekly

27 May 2024

Chart of the week – Unstoppable…for now



As US Q1 earnings season comes to an end, Nvidia's very strong results and guidance last week helped buoy overall S&P 500 performance, with the index pushing into fresh record territory. The results mattered given the company's outsized weight in the index following months of stellar gains. And it helps maintain investor confidence in the AI theme – a crucial market driver since early last year. **Many analysts now view tech profits as second only to tier-1 economic releases and Fed-speak in terms of their ability to influence broad market direction**.

In the near-term, as investors ride the wave of good earnings momentum, economic resilience and renewed confidence in a soft landing, stocks can continue to climb the 'wall of worry'. The trend is your friend, until it bends. Further down the line, sticky inflation, geopolitics, and growth cooling all feature on the list of possible concerns.

But the price you pay matters. Today, the Magnificent Seven's 12-month forward price-earnings (PE) ratio is 31x versus 18x for the rest of the S&P. Tech earnings growth expectations remain high (at around 20% for 2024 and 2025) and communication services make up over half of the overall index EPS growth. Therefore, at these valuations, investors remain vulnerable to a scenario where earnings in these sectors disappoint. And for the wider market, a Fed that keeps rates frozen heading into 2025 is still the key risk.

Chinese Equities →

Sectors that are leading the country's market higher

Macro Outlook →

Inflation trends and what lies ahead for the economy

Hedge Funds →

More opportunities for finding alpha in 2024

Market Spotlight

Navigating 'higher for longer' in LatAm

Latin American nations were ahead of the curve in their response to inflation. But faced with the prospect of a potentially 'higher for longer' outlook in the US, some LatAm central bankers have had to tread more carefully.

At its last meeting earlier this month, Banco Central do Brasil eased the pace of cuts to 0.25%, from 0.50% at the prior six meetings. This came amid recent FX weakness (the real is down 6% year-to-date). And in Mexico, central bankers have been more constrained. Deep economic integration with the US, the peso's high liquidity, and domestic inflation pressures recently forced a pause in the cutting cycle. And in Chile, there's been an even more cautionary tale. Aggressive rate cuts in 2022 and 2023 opened the way for FX-induced inflation. That forced a rethink in early 2024, with much slower cutting expected from here.

Rapid disinflation and rate cuts propelled huge gains in Latin America's markets last year. But the slowdown in monetary policy easing – and subdued growth and earnings momentum in the region – may go some way in explaining this year's reversal in performance. Fed rate cuts are likely needed to reignite investor enthusiasm.

Source: HSBC Asset Management. Macrobond, Bloomberg. Data as at 11.00am UK time 24 May 2024.

China stocks surge

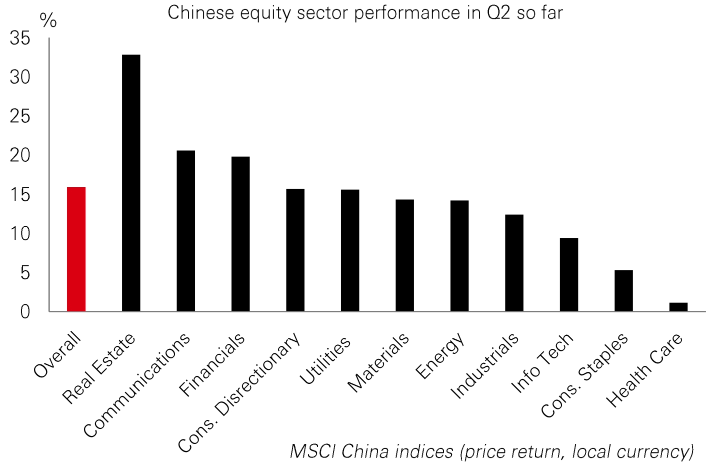
Stock markets in mainland China and Hong Kong have rallied this year, with solid momentum in Q2 delivering one of the strongest performances in global equities.

One driver of the moves has been a package of government support ranging from broad fiscal expansion to highly targeted plans to boost shareholder protections. There has also been strategic backing for key sectors, including the ailing property market, where measures sparked a 34% surge in real estate stocks in Q2.

Elsewhere, signs of cyclical stabilisation have played well for financial stocks. And upbeat earnings growth in places has supported sectors such as communications services.

There are still headwinds. Mainland China's property market is still weak, and growth remains unbalanced, with overcapacity in some sectors, lingering deflationary pressure and low consumer sentiment.

Chinese equity sector performance in Q2 so far

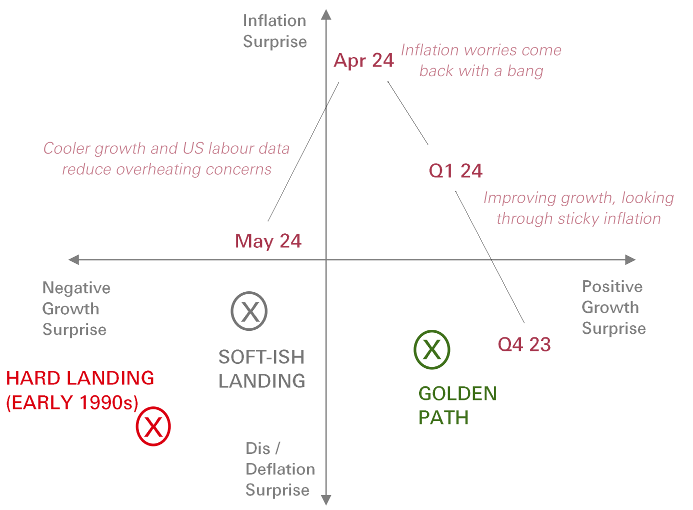


MSCI China indices (price return, local currency)

Reading the economic tea leaves

Late last year, disinflation and positive growth hinted at the prospect of the softest of soft landings for the economy. But in Q1, a sequence of three hot inflation prints reframed expectations. And, by April, those worries – and the implication of higher for longer rates – came back with a bang, with government bond yields surging.

Recent data suggest the inflation surprise may now be ebbing, and that growth could be cooling down too. After this rotation through the quadrants, the question now is the extent to which the data go on to align with the three potential scenarios: a **hard landing**, a **softish landing**, or a more positive **golden path**. Despite uncertainty, with signs that growth is slowing, a softish landing remains the most likely course.



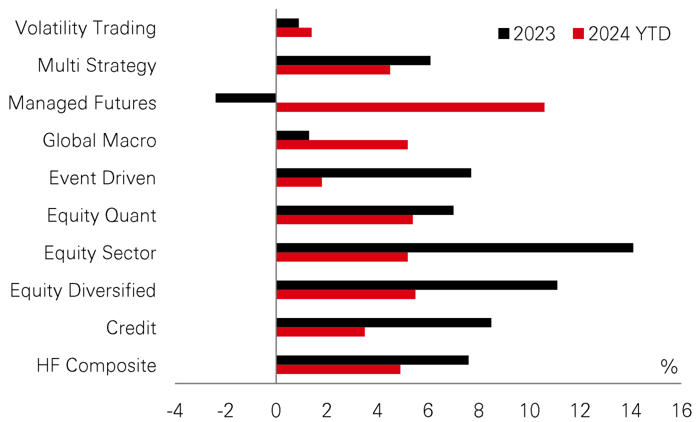
Hedging uncertain markets

Hedge funds have got off to a strong start in 2024, helped by supportive conditions in FX, equity and commodity markets. 'Trend following' strategies, such as Managed Futures – which pursue directional moves in markets – have been the strongest.

A key reason for this performance is that higher rates have caused wider dispersion in asset class and market performance. That means there has been a broader range of winners and losers, which is exactly what hedge funds need to achieve alpha returns.

Hedge fund specialists remain positive on the opportunity for discretionary macro managers in this environment. While rate cuts are expected later this year, managers are trading rates and, more generally, seeing relative value opportunities in both rates and commodities. There is also a positive view on Multi-Strategy and Multi-Manager Platforms, with quant and fundamentals-driven approaches performing well this year. **Against a backdrop of positive stock-bond correlations, and heightened geopolitical tensions, hedge funds have strong appeal as portfolio diversifiers** – though there is a need for careful manager selection.

Hedge fund performance by strategy



Past performance does not predict future returns.
Source: HSBC Asset Management. Macrobond, Bloomberg. Data as at 11.00am UK time 24 May 2024.

Key Events and Data Releases

Last week

Date	Country	Indicator	Data as of	Actual	Prior
Mon. 20 May	CN	Loan Prime Rate (1yr)	May	3.45%	3.45%
Wed. 22 May	NZ	RBNZ Interest Rate Decision	May	5.50%	5.50%
	UK	CPI (y-o-y)	Apr	2.3%	3.2%
	US	Minutes of May FOMC meeting	May		
	ID	Indonesia Central Bank Interest Rate Decision	May	6.25%	6.25%
Thu. 23 May	IN	S&P Global Composite PMI	May (P)	61.7	61.5
	EZ	Eurozone HCOB Composite PMI	May (P)	52.3	51.7
	US	Composite PMI	May (P)	54.4	51.3
	MX	GDP (q-o-q)	Q1 (F)	0.3%	0.2% (P)
	TY	Turkish Central Bank Interest Rate Decision	May	50.00%	50.00%
Fri. 24 May	JP	Nationwide CPI ex fresh food & energy (y-o-y)	Apr	2.4%	2.9%

P – Preliminary, F – Final, Q – Quarter   CN – China, NZ – New Zealand, ID – Indonesia, IN – India, MX – Mexico, TY – Turkey, JP – Japan

The week ahead

Date	Country	Indicator	Data as of	Survey	Prior
Mon. 27 May	EZ	Q1 Earnings			
	US/UK	US Memorial Day and UK Spring bank holiday. Financial markets are closed			
	GE	IFO Business Climate Index	May	90.3	89.4
Tue. 28 May	US	Conference Board Consumer Confidence Index	May	96.0	97.0
	US	S&P Case Shiller House Price Index, 20 major cities (mom)	Mar	0.3%	0.6%
Thu. 30 May	US	GDP (q-o-q annualised)	Q1	1.2%	1.6%
	US	Pending Home Sales (m-o-m)	Apr	0.5%	3.4%
Fri. 31 May	JP	Industrial Production (m-o-m)	Apr	1.7%	4.4%
	CN	Official Manufacturing PMI	May	50.4	50.4
	EZ	CPI (y-o-y)	May(P)	2.5%	2.4%
	IN	GDP (q-o-q annualised)	Q1 (S)	6.4%	8.4%
	US	Core PCE Deflator (y-o-y)	Apr	2.8%	2.8%

P – Preliminary, Q – Quarter, S – Second   EZ – Eurozone, GE – Germany, JP – Japan, CN – China, IN – India

Source: HSBC Asset Management. Data as at 11.00am UK time 24 May 2024.

Market review

Risk asset sentiment cooled towards the end of last week despite some impressive Q1 results in the US and upbeat PMI surveys. Core government bonds sold off modestly on hawkish May FOMC minutes ahead of upcoming core PCE inflation data. Gilts underperformed US Treasuries following disappointing UK inflation data. US equities were mixed: the tech-heavy Nasdaq fared better than the S&P 500 and the rates-sensitive Russell 2000. The Euro Stoxx 50 index posted modest losses. Japan's Nikkei 225 fell, with 10yr JGB yields breaching 1% amid fears of lower BoJ JGB purchases. In EM, the Shanghai Composite eased on lingering concerns about the weak property sector. India's Sensex remained buoyed by the positive cyclical and structural outlook. In commodities, oil softened on an upside surprise in US crude inventories, while copper weakened. Gold fell on higher US real yields.

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