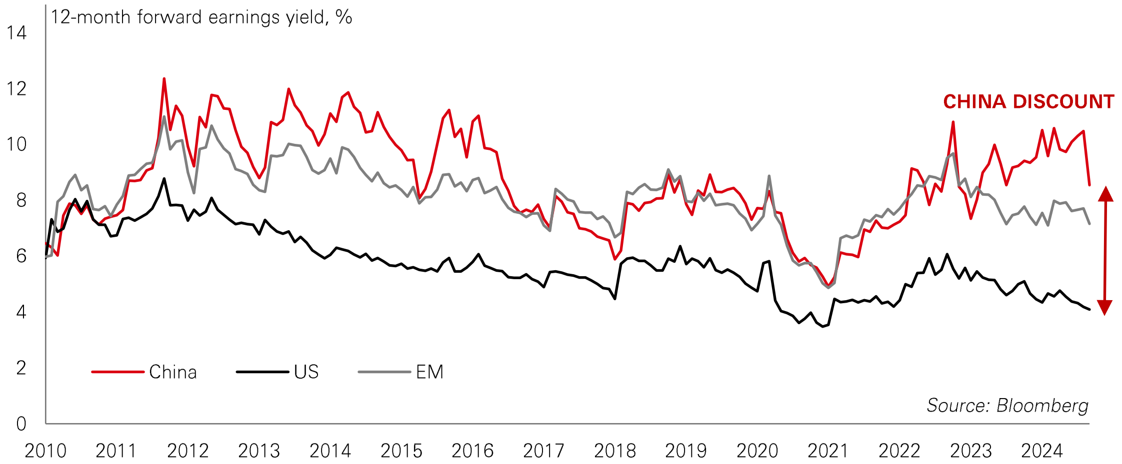
Investment Weekly

21 October 2024

Chart of the week – China's policy 'put'



After recently announcing new stimulus measures, China's policymakers have yet to fill in the details on the scale of support planned for tackling issues in housing markets, local governments, and consumer confidence. But with recent press conferences unveiling new commitments, there is clear evidence of a fundamental shift in policy thinking.

Speculating on the precise timing of China's stimulus isn't sensible. However, the "three arrows" policy strategy – liquidity, fiscal/credit, structural measures – offers a way forward to boost the economy out of the deflation trap. With further policy meetings in the calendar – the NPC standing committee in a few weeks – we may hear more soon.

As for markets, many Asian investors remain cautious on Chinese stocks, arguing that it will take a long time for capital flows to return. But at 11.5x earnings, China still trades at a heavy discount to EM (14x) and global stocks (21x). With bad news still in the price, good news could be 'doubly good' for stocks.

Another way to think about market effects is that China's stimulus sets up a **rotation trade in global stocks**. China's rally has already caused volatility in regional fund flows, affecting markets like India, South Korea, and Japan.

Market Spotlight

Taking geopolitics seriously

Geopolitical risks have been on the rise in 2024 – but the first question might be, "so what?". Many investors already feel well-equipped to deal with geopolitical risks. Most of the time, after all, the "geopolitical risk premium" has only a fleeting or transitory influence on investment markets. The effects unwind fairly quickly.

But this time could be different. There are several reasons why investors need to take geopolitics seriously in their asset allocation considerations. First, economic power is diffusing to Asia and the Global South, with profound implications for the macro-economy and the financial system. Second, the global environment has become less friendly to international cooperation. And third, the policies and principles that have stabilised the global order over the last 30 to 40 years seem increasingly obsolete.

It means that the "nice" economic regime now risks being "vile" – or, to spell it out, one of "Volatile Inflation and Limited Expansion". If left unchecked, it implies rising prices and lower economic growth potential. For investors, portfolio strategy will need to be prepared for such an eventuality and resilient to the implications of shorter business cycles, greater market dispersion, and changed correlations.

Policy Rates →

The driving forces behind last week's ECB rate cut

Private Credit →

Growth opportunities in Asia for the direct lending market

Indian Markets →

Factors driving the rise of a new asset class

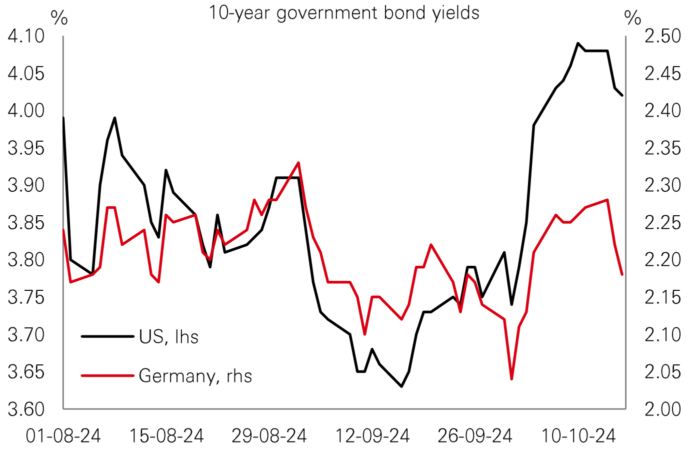
Source: HSBC Asset Management. Macrobond, Bloomberg. Data as at 11.00am UK time 18 October 2024.

Lens on...

ECB speeds up

At its October meeting, the European Central Bank (ECB) delivered its second rate cut in as many months and its third of this easing cycle. During the summer, the expectation was that it would cut at a pace of 0.25% every other meeting. What has changed? One factor is that the Federal Reserve has become more willing to ease policy. However, there have also been important eurozone developments. First, the latest inflation numbers show tentative signs that service sector inflation is now weakening, having been relatively sticky earlier this year. Wage growth is also softening, supporting the view that inflation pressures are fading. Second, activity data have surprised to the downside – the PMIs point to a deceleration in growth during H2 2024, led by Germany.

With the inflation situation improving, growth looking patchy – particularly in Germany – and the ECB easing policy at a brisker pace, Bunds have been outperforming US Treasuries since mid-September, reversing the trend seen since mid-April.

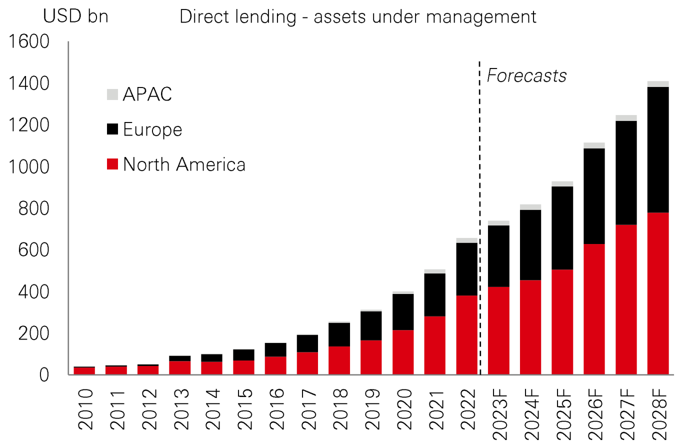


Going direct

The private credit market has grown rapidly in recent years, driven in part by strong demand for direct lending. There have been two key reasons for this: one is that traditional banks have retrenched from parts of the lending market, leaving private credit managers to fill the void. Another is that direct lending proved popular with private equity managers during the post-Covid deal-making boom.

For private credit investors, the returns have been strong. With an average yield of nearly 12%, the asset class has outperformed other Credits. With the global easing cycle underway, returns are expected to moderate over time, but it's expected to remain a high yield asset class.

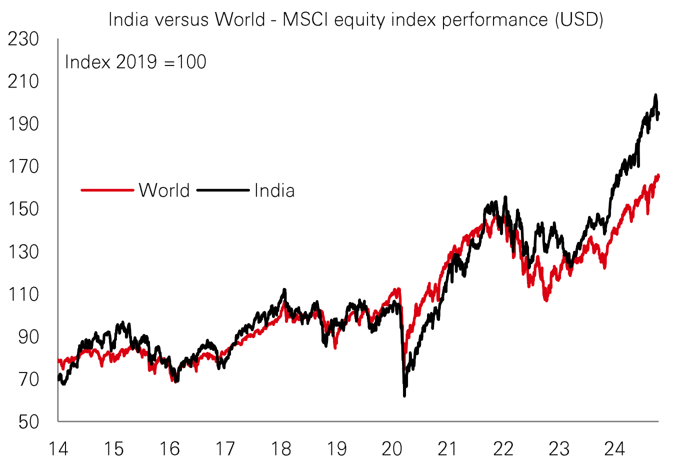
While North America and Europe currently dominate the direct lending markets, Asia is comparatively small – but growing strongly in some areas. With around 80% of total credit in Asia still provided by banks, there is growing demand for alternative sources of finance for fast-growing firms, mergers and acquisitions, and private equity deals.



Navigating new India

Reforms implemented over the past decade along with more credible monetary and fiscal policy have allowed India to begin tapping its catch-up potential and enviable demographics. The IMF expects India to be the fastest growing G20 economy over the remainder of the decade, with real GDP rising by almost 50% by 2029.

Consistent with the recent strong and expected growth, MSCI India has outperformed MSCI ACWI by a significant margin over the last five years. Importantly, however, the Indian equity market now offers greater diversification and less volatility than in the past – MSCI India now comprises over 150 stocks versus under 80 in late 2019. Moreover, it is not just in the equity space that India stands out – its 10y government yield is among the highest for investment grade issuers and has a low correlation with global bonds. Add in an undervalued INR, which also exhibits less volatility than the average EM currency, and **there is a strong case for India to be viewed as an asset class in its own right**, rather than simply part of a benchmark.



Past performance does not predict future returns. The level of yield is not guaranteed and may rise or fall in the future. For informational purposes only and should not be construed as a recommendation to invest in the specific country, product, strategy, sector or security. Any views expressed were held at the time of preparation and are subject to change without notice.
Source: HSBC Asset Management. Macrobond, Bloomberg, Datastream, Preqin. Data as at 11.00am UK time 18 October 2024.

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Key Events and Data Releases

Last week

Date	Country	Indicator	Data as of	Actual	Prior
Sat. 12 October	CN	Briefing from Ministry of Finance	Oct		
Sun. 13 October	CN	CPI (yoy)	Sep	0.4%	0.6%
Mon. 14 October	CN	Trade Balance (USD)	Sep	81.7bn	91.0bn
Tue. 15 October	UK	Unemployment Rate, ILO	Aug	4.0%	4.1%
Wed. 16 October	ID	Bank Indonesia Rate	Oct	6.00%	6.00%
	UK	CPI (yoy)	Sep	1.7%	2.2%
	PH	Central Bank Policy Rate	Oct	6.00%	6.25%
Thu. 17 October	TY	CBRT 1 Week Repo Lending Rate	Oct	50.00%	50.00%
	EZ	ECB Deposit Rate	Oct	3.25%	3.50%
	US	Retail Sales (mom)	Sep	0.4%	0.1%
	US	Industrial Production (mom)	Sep	-0.3%	0.3%
	CH	Banco Central de Chile Policy Rate	Oct	5.25%	5.5%
Fri. 18 October	JP	CPI (yoy)	Sep	2.5%	3.0%
	CN	Industrial Production (yoy)	Sep	5.4%	4.5%
	CN	Retail Sales (yoy)	Sep	3.2%	2.1%
	CN	GDP (yoy)	Q3	4.6%	4.7%

CN - China, EZ - Eurozone, UK - United Kingdom, ID - Indonesia, PH - Philippines, TY - Turkey, US - United States, CH - Chile, JP - Japan

The week ahead

Date	Country	Indicator	Data as of	Survey	Prior
Mon. 21 October	US	Earnings	Q3		
Tues. 22 October		IMF and World Bank Bi-Annual Meeting	Oct		
Wed. 23 October	CA	BoC Policy Rate	Oct	3.75%	4.25%
Thu. 24 October	US	Composite PMI (Flash)	Oct	54.4	54.0
	EZ	Composite PMI (Flash)	Oct	-	49.6
	JP	Tokyo CPI excluding food and energy (yoy)	Oct	-	1.2%
	IN	S&P Global Composite PMI (Flash)	Oct	-	58.3
	UK	S&P Global Composite PMI (Flash)	Oct	-	52.6
Fri. 25 October	GE	IFO Business Confidence Index	Oct	86.0	85.4

US - United States, CA - Canada, EZ - Eurozone, JP - Japan, IN - India, UK - United Kingdom, GE - Germany

Source: HSBC Asset Management. Data as at 7.30am UK time 18 October 2024. For informational purposes only and should not be construed as a recommendation to invest in the specific country, product, strategy, sector or security. Any views expressed were held at the time of preparation and are subject to change without notice.

Market review

A solid increase in US retail sales during September buoyed US Treasury yields towards the end of last week. In stocks, the small-cap Russell 2000 saw the strongest gains, with the large-cap S&P 500 touching new highs, helped by upbeat Q3 earnings news. In Europe, the ECB cut rates by 0.25%, noting that inflation was increasingly under control but warning the outlook for the bloc's economy was worsening. In Asia, Chinese equities pulled back for a second week following recent rallies, with a slew of macro data releases and policy expectations remaining in focus. India's Sensex also fell, but some ASEAN markets fared better, with Thai and Indonesian equities ending positively. Brazil's Ibovespa and Mexico's IPC were also both on course to finish higher. Elsewhere, the oil price fell on easing fears over tensions in the Middle East. Gold once again reached new highs.

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