

Investment Monthly

Invest resiliently amid growth slowdown

July 2022



Key takeaways

- As inflation in the US (8.6% in May) reaccelerated and is more broad-based, we think it will go higher and take longer to decline. Markets will remain volatile while growth is moderating. Investors should focus on quality, income and diversification to stay resilient.
- Low unemployment and high savings in the US support our view of no global recession this year. However, to manage the downside risks from further tightening and slowing growth, we downgrade Global and US Financials and Technology to Neutral.
- Challenged by tightening financial conditions and more broad-based spread widening, we moved high yield (US, Europe and UK) to Neutral and prefer investment grade bonds with short-to-medium maturities.



Willem Sels Global Chief Investment Officer, HSBC Global Private Banking and Wealth



Lucia Ku Head of Wealth Insights HSBC Wealth and Personal

Asset class 6-month view		Comment
Global equities	•	Equity valuations have become more attractive but uncertainty remains high, leading to a neutral stance.
Government bonds	•	Although yields have backed up, we see better opportunities for returns elsewhere.
Investment grade (IG) corporate bonds	A	We see attractive opportunities in short-to-medium dated IG following the back-up in yields.
High yield (HY) corpora bonds	rte 🔰	Slowing growth, tighter financial conditions and widening spreads increase the downside risks for global HY bonds.
Gold	•	Despite high inflation and market volatility, we don't foresee much upside due to rising rates and a strong USD.

Overweight" implies a positive tilt towards the asset class, within the context of a well-diversified, typically multi-asset portfolio

[&]quot;Underweight" implies a negative tilt towards the asset class, within the context of a well-diversified, typically multi-asset portfolio

[&]quot;Neutral" implies neither a particularly negative nor a positive tilt towards the asset class, within the context of a well-diversified, typically multi-asset portfolio. Icons: † View on this asset class has been upgraded; † View on this asset class has been downgraded.

Talking points

Each month, we discuss 3 key issues facing investors

1. What are the implications of rising inflation?

- ◆ US inflation reaccelerated to 8.6% in May (8.3% in April) driven not only by rising oil prices but also food prices and rent. This showed that inflation is more broad-based than before. High inflation expectations will also trigger higher wage demands and prolong the inflation pressures.
- ◆ We expect inflation to be higher and take longer to come down. US CPI may rise to over 9% in September and start to fall only in 2023. This will affect Fed policy and we now expect a 0.75% rate hike in July, 0.5% in September and November, and 0.25% in December. Market volatility is likely to persist.
- Investors should stay invested and diversified with a focus on quality companies with high cash positions, resilient margins and dividend payouts. Geographically, we still prefer the US, Hong Kong and ASEAN markets.

2. How to invest resiliently amid growth slowdown?

- ◆ Rising rates will hurt demand, and we have therefore lowered our global GDP forecast for 2022 from 3.5% to 3% but are not forecasting a recession in the US and global economy this year, although this cannot be ruled out either.
- ◆ The historically-low US unemployment which supports consumption (accounting for 68% of US GDP) and high savings accumulated during the COVID crises are key drivers for the US economy. The Fed is also looking to balance the labour supply/ demand to achieve a soft landing. Moreover, the rate level after the Fed completes the expected hikes should still be relatively low in the historical context.
- ♦ However, to manage the downside risks from rising rates and slowing growth, we downgrade Global and US Financials and Technology to Neutral. US Financials see lower mortgage lending volumes and declining fee income on reduced corporate activity, while weaker demand for some tech items (e.g. semiconductors) globally and reduced investment spending weigh on Technology. We also moved high yield to Neutral and prefer short-to-medium investment grade bonds following the recent significant spread widening.

3. What is the outlook for high yield?

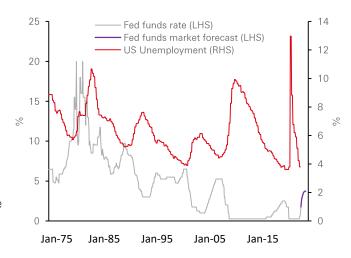
- Although DM high-yield companies still enjoy healthy credit fundamentals, especially in the US, and low default rates, tightening financial conditions and spread widening are headwinds for high-yield bonds.
- European high yield remains vulnerable to the Ukraine war and its ripple effects on energy provisioning and economic growth. Considering the macro challenges, we downgrade US, UK and Europe high yield to Neutral, with Asia remaining Overweight due to the region's more resilient growth outlook and attractive spreads (e.g. energy-export markets).
- We focus on the quality issuers in the BB-rating segment and carry opportunities at the short-to-medium part of the credit curves (i.e. 2-5 years).

Chart 1: We expect growth to slow and inflation to be high for longer

	GI	OP	Inflation		
% Year	2021	2022f	2021	2022f	
World	5.8	3.0	3.9	8.3	
US	5.7	2.3	4.7	8.6	
Eurozone	5.3	2.6	2.6	7.6	
UK	7.4	3.2	2.6	8.7	
Japan	1.7	1.5	-0.2	1.9	
Mainland China	8.1	4.1	0.9	2.3	

Source: HSBC Global Research forecasts as at 24 June 2022. Forecasts are subject to change.

Chart 2: Unemployment is much lower than typical recessionary periods and rates will remain low vs history



Source: Bloomberg, HSBC Global Private Banking as at 20 June 2022. Past performance is not a reliable indicator of future performance.

Chart 3: US high yield appears overvalued compared to US investment grade



Source: Bloomberg, HSBC Global Private Banking as at 17 June 2022 Past performance is not a reliable indicator of future performance.

Asset Class Views

Our latest house view on various asset classes

Japan Autor and industrials are in tit by supply chain issues but capital goods are good demand. Emerging Markets (EM) Foll diplicaning is a concern while goognished consone cause repositioning. Ase is robatively more reside healty recognished consone cause repositioning. Ase is robatively more reside health of the properties of the properties of the properties of the properties. EMEMA The region is impacted by a refugee crisis while high energy prices may cumpen growth. EM Latam Commodity opposition in properties of the region but here are risk a drawn of a before any properties. Asian equities This amenine our most preferred EM region supported by said growth in ASEAN and slong Kong. The refuse of the properties of the properties. China The common growth his ASEAN and the properties of the properties and the properties of the pr	Asset class	6-month view	Comment
United States A Will like the clivenity and quality provinceter of US stocks but are defensively gine toned. United Kingdom Actuality valued but the local accounting is shall arged and high cost of living vesighs on consumption. Eurocone V ECB dightening, high ancety prices and the require's geographical proteins by the Ultraine war are key. Japan Actor and industrials are hit by supply chair issues but cooking goods are good demand. For litigating as a concorn white geographical treations cause reportationing. As a sinch party more realish booking received to the control goods are good demand. EM EMERA V The region is imported by a refugeo crisis while high analysistics have demand go vitus. Asian acquities This remains our most preferred EM region supported by solid growth in ASEAN and Hong Kong. The inflation pressure and therefore rewer has high a than a sewment but they should also see allower demand inflation in pressure and therefore rewer has high and a sew remains our most preferred EM region supported by solid growth in ASEAN and Hong Kong. The inflation pressure and therefore rewer has high and account party in the concrete prevent. China This remains our most preferred EM region supported by solid growth in ASEAN and Hong Kong. The inflation pressure and therefore rewer has high a sew remains but they should also see allower demand in the concrete prevent in the state of the constitution of the food and monical inflation. The socretion growth with in EM when the impact of foodshirws starts in ease. Hong Kong A return of the control reporting the control and the lighter revolution to the sew of the control reporting the control research in the control reporting the control reporting the control reporting the control research will be instructioned in August. The matter of the control reporting the control by the crucial research will be entitioused in August. The work of the control reporting the	Global equities		
United Kingdom Autoratively valued but the local accommy is challenged and high cost of iming weight on consumption. Eurocone CEOB sightnamp, high energy prices and the region's geographical proximity to the Ultraine was and keyn. Japan Autors and incustratial see hit by supply when issues but capital goods assigned demand. Emerging Markets (EM) First options in appared by a refugee crise while high energy process may durapen growth. EM Latan Commodify exposure benefits the region but there are risks durapen growth. EM Latan Commodify exposure benefits the region but there are risks grown in ASEAN and living Kong. The instant exhallong your consumers and therefore flever risks his showher a but they should also see allower demands technology products. China This persons authors preferred EM region supported by safet growth in ASEAN and living Kong. The instant on results and therefore flever risks his showher a but they should also see allower demands technology products. China The accommic growth is shallenged by COMD and the error tollers policy, but the fiscal and monetar aspected to believing work in the Winner the impact of lockdowns are the case and winner to pure the common of th	Global	► Eq.	uity valuations have become more attractive but uncertainty remains high, leading to a neutral stance.
Eurosone V ECB tightening, high emergy prices and that region's geographical proximity to the Usraina war are keyr. Japan Autos and industrials are his by supply chain issues but capital goods see good demand. Emerging Markots (EM) Polyphorm go a concern which copposituation issues but capital goods see good demand. Emerging Markots (EM) Polyphorm go a concern which copposituation issues but capital goods see good demand. EM EMECA The region is imposed by a riduged caries while high energy prices may during a graviti. EM EMEL tation Commodities This immains our most preferred EM region supported by solid growth in ASEAN and Heng Kong. The indication pressure and threefore fever rate his set than alsowhere but they should also see a cover demands on the control of the commodities of the commodities and political and the commodities of the commodities and political and the commodities of the commodities and the commodities of the commodities and the commodities and the commodities of the commodities and the commodities a	United States	▲ W€	e like the diversity and quality character of US stocks but are defensively positioned.
Autos and industrials are hit by supply chain issues but capital goods see good demand.	United Kingdom	► Att	rractively valued but the local economy is challenged and high cost of living weighs on consumption.
Emerging Markets (EM) Feet Inthreshing is a concean while geooditical tensions cause repositioning. Asia is relatively more real life with year encounter outlook. EM Latan	Eurozone	▼ EC	B tightening, high energy prices and the region's geographical proximity to the Ukraine war are key challenges.
the time type was to see the second of the service of the second of the service o	Japan	▶ Au	tos and industrials are hit by supply chain issues but capital goods see good demand.
EM Latem Po Commodity exposure benefits the region but there are risks around rate hikes and politics. Asian equities This remains our most proferred EM region supported by solid growth in ASEAN and Hong Kong. The risk around rate hikes and politics. Asia exulapan A This remains our most proferred EM region supported by solid growth in ASEAN and Hong Kong. The risk around the risk professor inflation pressure and therefore sever rate hikes than elsewhere but they should also see slower demant and the professor in the professor in the professor in the professor inflation pressure and therefore sever rate hikes than elsewhere but they should also see slower demant and the professor in the defination and international professor in the professor in the defination and international professor in the professor in the defination and international professor in the professor in the professor in the professor in the defination and international professor in the profe	Emerging Markets (EM)		d tightening is a concern while geopolitical tensions cause repositioning. Asia is relatively more resilient with its
Asian equities Asian equities Asian explanan Asian explanan	EM EMEA		,
This remains our most preferred EM region supported by solid growth in ASEAN and Enting Kong, The relation treasures and therefore fever rate hikes then elsewhere but they should also see shower demander to the common of the c	EM Latam	▶ Co	mmodity exposure benefits the region but there are risks around rate hikes and politics.
Asia ex-Japan Inflation pressure and therefore fewer rists hikkes than elsewhere that they should also see slower demant technology products. China The economic growth is challenged by COVID and the zero tolerance policy, but the fiscal and manetar expected to botter growth in 12 whom the impact of locations starts on ease. India I	Asian equities		
Exercised to bolister growth in H2 when the impact of lookdowns starts to dese.	Asia ex-Japan	▲ infl	s remains our most preferred EM region supported by solid growth in ASEAN and Hong Kong. The region has lower ation pressure and therefore fewer rate hikes than elsewhere but they should also see slower demand for chology products.
Linea Current account deficit is likely to widen.	China		e economic growth is challenged by COVID and the zero tolerance policy, but the fiscal and monetary policies are pected to bolster growth in H2 when the impact of lockdowns starts to ease.
Front kong Tebound in Q2 and Q3. The second half of the consumption vouchers will be distributed in August. Singapore The recovery momentum continues to be supported by the travel and burism related services, realient and strong private consumption. Growth is set to slow on external weakness. Domestic consumption has become the key driver after the distancing measures have been filted. Rising inflation remains a key nisk. Taiwan The market is challenged by weaker global demand for consumer electronics products and supply challed sending set by the consumption has become the key driver after the distancing measures have been filted. Rising inflation remains a key nisk. Taiwan The market is challenged by weaker global demand for consumer electronics products and supply challed sending set in the UK is unlikely to rebound in the near term due to the Omicron wave at home. Government bonds	India	Hiç	gher oil prices weigh on growth. The RBI is expected to continue with rate hikes amid inflationary pressures. The
and strong private consumption. South Korea Growth is set to allow on external weakness. Domestic consumption has become the key driver after the distancing measures have been lifted. Rising inflation remains a key risk. Taiwan The market is challenged by weaker global demand for consumer electronics products and supply chain Household Spending is unlikely to rebound in the near term due to the Omicron wave at home. Government bonds Developed markets (DM)	Hong Kong		e economic reopening, cheap valuations and its higher exposure to the defensive sectors are key drivers for a sound in Q2 and Q3. The second half of the consumption vouchers will be distributed in August.
distancing measures have been lifted. Rising inflation remains a key risk. Taiwan The market is challenged by weaker global demand for consumer electronics products and supply chain thousehold spending is unlikely to rebound in the near term due to the Omiron wave at home. Although yields have backed up, we see better opportunities for returns elsewhere. United States US Treasury yields rose on the back of rising inflation and policy tightening. Although the market seems to be priced in for more hikes than the economy can handle due to weak go in the UK is likely to rise even further, implying that Gilt volatility may remain elevated. Eurozone Although the market seems to be priced in for more hikes than the economy can handle due to weak go in the UK is likely to rise even further, implying that Gilt volatility may remain elevated. Eurozone Although the market seems to be priced in for more hikes than the economy can handle due to weak go in the UK is likely to rise even further, implying that Gilt volatility may remain elevated. Eurozone Inflation has resulted in a more hawkish ECB, with current valuations not appealing enough. Widening differential between Germany and the periphery needs to convincingly addressed by the ECB. Japan The uttra loose monetary policy and a weaker yen are set to further steepen the longerend of the gover segment. Emerging Markets (Hard currency) Select opportunities exist but USD strength and rate hikes in some EM countries are headwinds. Emerging Markets (Hard currency) We see attractive opportunities in short-to-medium dated IG following the back-up in yields. US jobs and consumer spending data have been strong, while corporate earnings are resilient. All in yie become attractive early in with many rate hikes priced in, and we see opportunities in short-to-medium dated obods. US plobs and consumer spending of Eurozone credit represents an opportunity for buy-and-hold investors, while decome attractive early proven to be relatively resilient to the energy supp	Singapore		e recovery momentum continues to be supported by the travel and tourism related services, resilient manufacturing d strong private consumption.
Household spending is unlikely to rebound in the near term due to the Omicron wave at home. Government bonds Developed markets (DM) Although yields have backed up, we see better opportunities for returns elsewhere. United States US Treasury yields rose on the back of rising inflation and policy tightening. Although the market seems to be priced in for more hikes than the economy can handle due to weak g in the UK is likely to rise even further, implying that Gilt volatility may remain elevated. Eurozone Validation has resulted in a more hawkish ECB, with current valuations not appealing enough. Widening differential between Germany and the periphery needs to convincingly addressed by the ECB. Japan The ultra loose monetary policy and a weaker yen are set to further steepen the longer-end of the gover segment. Emerging Markets (Local currency) Select opportunities exist but USD strength and rate hikes in some EM countries are headwinds. Emerging Markets (Hard currency) Amid higher Treasury volatility, we still find yield but remain selective. Corporate bonds Global investment grade (IG) We see attractive opportunities in short-to-medium dated IG following the back-up in yields. US jobs and consumer spending data have been strong, while corporate earnings are resilient. All in yie become attractive again with many rate hikes priced in, and we see opportunities in short-to-medium donds. EUR and GBP investment The recent cheapening of Eurozone credit represents an opportunity for buy-and-hold investors, while of proven to be relatively resilient. We emphasise however a preference for short-to-medium dated quality. Asia investment grade (IG) Asia credit offers attractive carry opportunities and stays relatively resilient to the energy supply shock. quality issues in Indonesies hard currency bonds, Chinese financials, etc. Global high-yield (HY) Slowing growth, tighter financial conditions and widening spreads increase the downside risks for glob US high-yield (HY) While US high-yield compan	South Korea		owth is set to slow on external weakness. Domestic consumption has become the key driver after the social tancing measures have been lifted. Rising inflation remains a key risk.
Developed markets (DM) Although yields have backed up, we see better opportunities for returns elsewhere. United States US Treasury yields rose on the back of rising inflation and policy tightening. Although the market seems to be priced in for more hikes than the economy can handle due to weak g in the UK is likely to rise even further, implying that Gilt volatility may remain elevated. Eurozone The ultra loose manetary policy and a weaker yen are set to further steepen the longer-end of the gover segment. The ultra loose monetary policy and a weaker yen are set to further steepen the longer-end of the gover segment. Emerging Markets (Local currency) Femerging Markets (Hard currency) Amid higher Treasury volatility, we still find yield but remain selective. Corporate bonds Global investment grade (IG) We see attractive opportunities in short-to-medium dated IG following the back-up in yields. USD investment grade (IG) We see attractive again with many rate hikes priced in, and we see opportunities in short-to-medium doubted for short-to-medium doubted for short-to-medium doubted for proven to be relatively resilient. We emphasise however a preference for short-to-medium dated quality as a investment grade (IG) A lasi caredit offers attractive again with many rate hikes priced in, and we see opportunities in short-to-medium dated quality for such as a care of the proven to be relatively resilient. We emphasise however a preference for short-to-medium dated quality issuers in Indonesian hard currency bonds. Chinese SoEs, Chinese financials, etc. Global high-yield (HY) Slowing growth, tighter financial conditions and widening spreads increase the downside risks for glob US high-yield (HY) While US high-yield companies still enjoy solid credit fundamentals and low default rates, tightening fine conditions and faster Fed fund rate hikes create downside risks. Despite indirect support from the ECB. European high yield remains vulnerable to the developments of and its impact on energy provisioning	Taiwan		e market is challenged by weaker global demand for consumer electronics products and supply chain issues. usehold spending is unlikely to rebound in the near term due to the Omicron wave at home.
United States US Treasury yields rose on the back of rising inflation and policy tightening. Although the market seems to be priced in for more hikes than the economy can handle due to weak g in the UK is likely to rise even further, implying that Gilt volatility may remain elevated. Inflation has resulted in a more hawkish ECB, with current valuations not appealing enough. Widening differential between Germany and the periphery needs to be convincingly addressed by the ECB. Japan The ultra loose monetary policy and a weaker yen are set to further steepen the longer-end of the gover segment. Select opportunities exist but USD strength and rate hikes in some EM countries are headwinds. Emerging Markets (Local currency) Amid higher Treasury volatility, we still find yield but remain selective. Corporate bonds Global investment grade (IG) We see attractive opportunities in short-to-medium dated IG following the back-up in yields. USD investment grade (IG) We see attractive again with many rate hikes priced in, and we see opportunities in short-to-medium d bonds. EUR and GBP investment The recent cheapening of Eurozone credit represents an opportunity for buy-and-hold investors, while of proven to be relatively resilient. We emphasise however a preference for short-to-medium dated quality, assis investment grade (IG) Asia credit offers stractive carry opportunities and stays relatively resilient to the energy supply shock, quality issuers in Indonesian hard currency bonds, Chinese SOEs, Chinese financials, etc. Global high-yield (HY) Slowing growth, tighter financial conditions and widening spreads increase the downside risks for glob US high-yield (HY) While US high-yield companies still enjoy solid credit fundamentals and low default rates, tightening fire conditions and faster Fed fund rate hikes create downside risks for glob and its impact on energy provisioning and economic growth. Asia high-yield (HY) While US high-yield companies still enjoy solid credit fundamentals and low default ra	Government bonds		
United Kingdom Although the market seems to be priced in for more hikes than the economy can handle due to weak g in the UK is likely to rise even further, implying that Gilt volatility may remain elevated. Inflation has resulted in a more hawkish ECB, with current valuations not appealing enough. Widening differential between Germany and the periphery needs to be convincingly addressed by the ECB. Japan The ultra loose monetary policy and a weaker yen are set to further steepen the longer-end of the gover segment. Emerging Markets (Local currency) Select opportunities exist but USD strength and rate hikes in some EM countries are headwinds. Emerging Markets (Lard currency) Amid higher Treasury volatility, we still find yield but remain selective. Corporate bonds Global investment grade (IG) We see attractive opportunities in short-to-medium dated IG following the back-up in yields. USD investment grade (IG) We see attractive again with many rate hikes priced in, and we see opportunities in short-to-medium dobonds. EUR and GBP investment The recent cheapening of Eurozone credit represents an opportunity for buy-and-hold investors, while conditions and start represents an adalactive provent on the relatively resilient. We emphasise however a preference for short-to-medium dated quality. Asia investment grade (IG) Asia credit offers attractive carry opportunities and stays relatively resilient to the energy supply shock. quality issuers in Indonesian hard currency bonds, Chinese SOEs, Chinese financials, etc. Global high-yield (HY) While US high-yield companies still enjoy solid credit fundamentals and low default rates, tightening fire conditions and faster Fed fund rate hikes create downside risks. EUR and GBP high-yield (HY) While US high-yield companies still enjoy solid credit fundamentals and low default rates, tightening fire conditions and faster Fed fund rate hikes created downside risks. Despite indirect support from the ECB, European high yield remains vulnerable to the developmen	Developed markets (DM)	▼ Alt	hough yields have backed up, we see better opportunities for returns elsewhere.
in the ÜK is likely to rise even further, implying that Gilt volatility may remain elevated. Eurozone Y differential between Germany and the periphery needs to be convincingly addressed by the ECB. Japan Y The ultra loose monetary policy and a weaker yen are set to further steepen the longer-end of the gover segment. Emerging Markets (Local currency) Select opportunities exist but USD strength and rate hikes in some EM countries are headwinds. (Lordal currency) Amid higher Treasury volatility, we still find yield but remain selective. Corporate bonds Global investment grade (IG) We see attractive opportunities in short-to-medium dated IG following the back-up in yields. US jobs and consumer spending data have been strong, while corporate earnings are resilient. All in yie become attractive again with many rate hikes priced in, and we see opportunities in short-to-medium dated (IG) EUR and GBP investment grade (IG) A The recent cheapening of Eurozone credit represents an opportunity for buy-and-hold investors, while G proven to be relatively resilient. We emphasise however a preference for short-to-medium dated quality. Asia investment grade (IG) A Sia credit offers attractive carry opportunities and stays relatively resilient to the energy supply shock, quality issuers in Indonesian hard currency bonds, Chinese SoEs, Chinese financials, etc. Global high-yield (HY) Slowing growth, tighter financial conditions and widening spreads increase the downside risks for glob While US high-yield companies still enjoy solid credit fundamentals and low default rates, tightening fin conditions and faster Fed fund rate hikes create downside risks. EUR and GBP high-yield (HY) Asia high-yield (HY) Asia high-yield (HY) Asia high-yield (HY) Despite indirect support from the ECB, European high yield remains vulnerable to the developments of and its impact on energy provisioning and deconomic growth. Asia high-yield (HY) Asia high-yield (HY) Asia high-yield (HY) Despite high inflation and market volatili	United States	▶ US	Treasury yields rose on the back of rising inflation and policy tightening.
differential between Germany and the periphery needs to be convincingly addressed by the ECB. Japan The ultra loose monetary policy and a weaker yen are set to further steepen the longer-end of the gover segment. Emerging Markets (Local currency) Select opportunities exist but USD strength and rate hikes in some EM countries are headwinds. Emerging Markets (Hard currency) Amid higher Treasury volatility, we still find yield but remain selective. Corporate bonds Global investment grade (IG) We see attractive opportunities in short-to-medium dated IG following the back-up in yields. US jobs and consumer spending data have been strong, while corporate earnings are resilient. All in yie become attractive again with many rate hikes priced in, and we see opportunities in short-to-medium d bonds. EUR and GBP investment grade (IG) Asia investment grade (IG) Asia redit offers attractive carry opportunities and stays relatively resilient to the energy supply shock. quality issuers in Indonesian hard currency bonds, Chinese SOEs, Chinese financials, etc. Global high-yield (HY) While US high-yield companies still enjoy solid credit fundamentals and low default rates, tightening fin conditions and faster Fed fund rate hikes create downside risks. EUR and GBP high-yield (HY) Despite indirect support from the ECB, European high yield remains vulnerable to the developments of and its impact on energy provisioning and economic growth. Asia high-yield is more resilient within the HY universe thanks to its more diversified economies and suffered policies. Oil and gas issuers stand to benefit from elevated energy prices. Commodities Gold Despite high inflation and market volatility, we don't foresee much upside due to rising rates and a stro	United Kingdom	in t	
Segment. Emerging Markets (Local currency) Emerging Markets (Hard currency) Corporate bonds Global investment grade (IG) A We see attractive opportunities in short-to-medium dated IG following the back-up in yields. USD investment grade (IG) A We see attractive opportunities in short-to-medium dated IG following the back-up in yields. USD investment grade (IG) A We see attractive opportunities in short-to-medium dated IG following the back-up in yields. USD investment grade (IG) A US jobs and consumer spending data have been strong, while corporate earnings are resilient. All in yield become attractive again with many rate hikes priced in, and we see opportunities in short-to-medium donds. EUR and GBP investment grade (IG) A Sais credit offers attractive carry opportunities and stays relatively resilient to the energy supply shock. quality issuers in Indonesian hard currency bonds, Chinese SOEs, Chinese financials, etc. Global high-yield (HY) I Slowing growth, tighter financial conditions and widening spreads increase the downside risks for glob US high-yield (HY) While US high-yield companies still enjoy solid credit fundamentals and low default rates, tightening fir conditions and faster Fed fund rate hikes create downside risks. EUR and GBP high-yield (HY) While US high-yield companies still enjoy solid credit fundamentals and low default rates, tightening fir conditions and faster Fed fund rate hikes create downside risks. EUR and GBP high-yield (HY) Despite indirect support from the ECB, European high yield remains vulnerable to the developments of and its impact on energy provisioning and economic growth. Asia high-yield is more resilient within the HY universe thanks to its more diversified economies and sur domestic policies. Oil and gas issuers stand to benefit from elevated energy prices. Commodities Gold Despite high inflation and market volatility, we don't foresee much upside due to rising rates and a stro	Eurozone		lation has resulted in a more hawkish ECB, with current valuations not appealing enough. Widening of yield ferential between Germany and the periphery needs to be convincingly addressed by the ECB.
Emerging Markets (Hard currency) Amid higher Treasury volatility, we still find yield but remain selective. Corporate bonds Global investment grade (IG) We see attractive opportunities in short-to-medium dated IG following the back-up in yields. USD investment grade (IG) LUS jobs and consumer spending data have been strong, while corporate earnings are resilient. All in yield become attractive again with many rate hikes priced in, and we see opportunities in short-to-medium dated (IG) EUR and GBP investment grade (IG) Asia investment grade (IG) Asia credit offers attractive carry opportunities and stays relatively resilient. We emphasise however a preference for short-to-medium dated quality. Asia investment grade (IG) Asia credit offers attractive carry opportunities and stays relatively resilient to the energy supply shock. quality issuers in Indonesian hard currency bonds, Chinese SOEs, Chinese financials, etc. Global high-yield (HY) Vinite US high-yield companies still enjoy solid credit fundamentals and low default rates, tightening fire conditions and faster Fed fund rate hikes create downside risks. EUR and GBP high-yield (HY) Asia high-yield is more resilient within the HY universe thanks to its more diversified economies and surdomestic policies. Oil and gas issuers stand to benefit from elevated energy prices. Commodities Gold Despite high inflation and market volatility, we don't foresee much upside due to rising rates and a stro	Japan	▼	e ultra loose monetary policy and a weaker yen are set to further steepen the longer-end of the government bond gment.
(Hard currency) Corporate bonds Global investment grade (IG) We see attractive opportunities in short-to-medium dated IG following the back-up in yields. US jobs and consumer spending data have been strong, while corporate earnings are resilient. All in yie become attractive again with many rate hikes priced in, and we see opportunities in short-to-medium d bonds. EUR and GBP investment grade (IG) The recent cheapening of Eurozone credit represents an opportunity for buy-and-hold investors, while of proven to be relatively resilient. We emphasise however a preference for short-to-medium dated quality. Asia investment grade (IG) Asia credit offers attractive carry opportunities and stays relatively resilient to the energy supply shock. quality issuers in Indonesian hard currency bonds, Chinese SOEs, Chinese financials, etc. Global high-yield (HY) Slowing growth, tighter financial conditions and widening spreads increase the downside risks for glob While US high-yield companies still enjoy solid credit fundamentals and low default rates, tightening fin conditions and faster Fed fund rate hikes create downside risks. EUR and GBP high-yield (HY) While US high-yield companies still enjoy solid credit fundamentals and low default rates, tightening fin conditions and faster Fed fund rate hikes create downside risks. EUR and GBP high-yield (HY) Despite indirect support from the ECB, European high yield remains vulnerable to the developments of and its impact on energy provisioning and economic growth. Asia high-yield (HY) Asia high yield is more resilient within the HY universe thanks to its more diversified economies and sur domestic policies. Oil and gas issuers stand to benefit from elevated energy prices. Commodities Gold Despite high inflation and market volatility, we don't foresee much upside due to rising rates and a stro	8 8	► Sel	lect opportunities exist but USD strength and rate hikes in some EM countries are headwinds.
Global investment grade (IG) We see attractive opportunities in short-to-medium dated IG following the back-up in yields. US jobs and consumer spending data have been strong, while corporate earnings are resilient. All in yie become attractive again with many rate hikes priced in, and we see opportunities in short-to-medium do bonds. EUR and GBP investment grade (IG) A sia investment grade (IG) A sia credit offers attractive carry opportunities and stays relatively resilient to the energy supply shock. quality issuers in Indonesian hard currency bonds, Chinese SOEs, Chinese financials, etc. Global high-yield (HY) Slowing growth, tighter financial conditions and widening spreads increase the downside risks for glob US high-yield (HY) While US high-yield companies still enjoy solid credit fundamentals and low default rates, tightening fine conditions and faster Fed fund rate hikes create downside risks. EUR and GBP high-yield (HY) Despite indirect support from the ECB, European high yield remains vulnerable to the developments of and its impact on energy provisioning and economic growth. Asia high-yield (HY) Asia high yield is more resilient within the HY universe thanks to its more diversified economies and support of provision of the second of		► Am	nid higher Treasury volatility, we still find yield but remain selective.
US jobs and consumer spending data have been strong, while corporate earnings are resilient. All in yie become attractive again with many rate hikes priced in, and we see opportunities in short-to-medium d bonds. EUR and GBP investment grade (IG) Asia	Corporate bonds		
USD investment grade (IG) □ become attractive again with many rate hikes priced in, and we see opportunities in short-to-medium d bonds. EUR and GBP investment grade (IG) □ The recent cheapening of Eurozone credit represents an opportunity for buy-and-hold investors, while G proven to be relatively resilient. We emphasise however a preference for short-to-medium dated quality. □ Asia investment grade (IG) □ Asia credit offers attractive carry opportunities and stays relatively resilient to the energy supply shock. quality issuers in Indonesian hard currency bonds, Chinese SOEs, Chinese financials, etc. □ Slowing growth, tighter financial conditions and widening spreads increase the downside risks for glob. □ While US high-yield companies still enjoy solid credit fundamentals and low default rates, tightening fin conditions and faster Fed fund rate hikes create downside risks. □ Despite indirect support from the ECB, European high yield remains vulnerable to the developments of and its impact on energy provisioning and economic growth. □ Asia high-yield (HY) □ Asia high yield is more resilient within the HY universe thanks to its more diversified economies and sur domestic policies. Oil and gas issuers stand to benefit from elevated energy prices. □ Commodities □ Despite high inflation and market volatility, we don't foresee much upside due to rising rates and a stro	Global investment grade (IG)	▲ VV∈	e see attractive opportunities in short-to-medium dated IG following the back-up in yields.
grade (IG) proven to be relatively resilient. We emphasise however a preference for short-to-medium dated quality Asia investment grade (IG) Asia credit offers attractive carry opportunities and stays relatively resilient to the energy supply shock. quality issuers in Indonesian hard currency bonds, Chinese SOEs, Chinese financials, etc. Global high-yield (HY) Slowing growth, tighter financial conditions and widening spreads increase the downside risks for glob. While US high-yield companies still enjoy solid credit fundamentals and low default rates, tightening fin conditions and faster Fed fund rate hikes create downside risks. EUR and GBP high-yield (HY) Despite indirect support from the ECB, European high yield remains vulnerable to the developments of and its impact on energy provisioning and economic growth. Asia high-yield (HY) Asia high-yield is more resilient within the HY universe thanks to its more diversified economies and support from elevated energy prices. Commodities Gold Despite high inflation and market volatility, we don't foresee much upside due to rising rates and a stro	USD investment grade (IG)	▲ bed	i jobs and consumer spending data have been strong, while corporate earnings are resilient. All in yields have come attractive again with many rate hikes priced in, and we see opportunities in short-to-medium dated quality nds.
Asia investment grade (IG) quality issuers in Indonesian hard currency bonds, Chinese SOEs, Chinese financials, etc. Global high-yield (HY) Slowing growth, tighter financial conditions and widening spreads increase the downside risks for glob. While US high-yield companies still enjoy solid credit fundamentals and low default rates, tightening fin conditions and faster Fed fund rate hikes create downside risks. EUR and GBP high-yield (HY) Despite indirect support from the ECB, European high yield remains vulnerable to the developments of and its impact on energy provisioning and economic growth. Asia high-yield (HY) Asia high-yield is more resilient within the HY universe thanks to its more diversified economies and support from the ECB, European high yield remains vulnerable to the developments of and its impact on energy provisioning and economic growth. Asia high-yield (HY) Despite high inflation and market volatility, we don't foresee much upside due to rising rates and a stroughly inflation and market volatility, we don't foresee much upside due to rising rates and a stroughly inflation and market volatility, we don't foresee much upside due to rising rates and a stroughly inflation and market volatility, we don't foresee much upside due to rising rates and a stroughly inflation and market volatility, we don't foresee much upside due to rising rates and a stroughly inflation and market volatility, we don't foresee much upside due to rising rates and a stroughly inflation and market volatility.			e recent cheapening of Eurozone credit represents an opportunity for buy-and-hold investors, while GBP credit has oven to be relatively resilient. We emphasise however a preference for short-to-medium dated quality issuers.
US high-yield (HY) While US high-yield companies still enjoy solid credit fundamentals and low default rates, tightening fin conditions and faster Fed fund rate hikes create downside risks. EUR and GBP high-yield (HY) Despite indirect support from the ECB, European high yield remains vulnerable to the developments of and its impact on energy provisioning and economic growth. Asia high-yield (HY) Asia high-yield is more resilient within the HY universe thanks to its more diversified economies and supdomestic policies. Oil and gas issuers stand to benefit from elevated energy prices. Commodities Gold Despite high inflation and market volatility, we don't foresee much upside due to rising rates and a stro	Asia investment grade (IG)		ia credit offers attractive carry opportunities and stays relatively resilient to the energy supply shock. We prefer ality issuers in Indonesian hard currency bonds, Chinese SOEs, Chinese financials, etc.
conditions and faster Fed fund rate hikes create downside risks. EUR and GBP high-yield (HY) Despite indirect support from the ECB, European high yield remains vulnerable to the developments of and its impact on energy provisioning and economic growth. Asia high-yield (HY) Asia high-yield is more resilient within the HY universe thanks to its more diversified economies and support from elevated energy prices. Commodities Gold Despite high inflation and market volatility, we don't foresee much upside due to rising rates and a stro	Global high-yield (HY)	▶↓ Slo	owing growth, tighter financial conditions and widening spreads increase the downside risks for global HY bonds.
and its impact on energy provisioning and economic growth. Asia high-yield (HY) Asia high-yield is more resilient within the HY universe thanks to its more diversified economies and surdomestic policies. Oil and gas issuers stand to benefit from elevated energy prices. Commodities Gold Despite high inflation and market volatility, we don't foresee much upside due to rising rates and a stro	US high-yield (HY)		nile US high-yield companies still enjoy solid credit fundamentals and low default rates, tightening financial Inditions and faster Fed fund rate hikes create downside risks.
Asia high-yield (HY) domestic policies. Oil and gas issuers stand to benefit from elevated energy prices. Commodities Gold Despite high inflation and market volatility, we don't foresee much upside due to rising rates and a stro	EUR and GBP high-yield (HY)	and	
Gold Despite high inflation and market volatility, we don't foresee much upside due to rising rates and a stro	Asia high-yield (HY)		ia high yield is more resilient within the HY universe thanks to its more diversified economies and supportive mestic policies. Oil and gas issuers stand to benefit from elevated energy prices.
	Commodities		
Oil High price levels reflect supply concerns but demand is starting to decline	Gold	▶ De	spite high inflation and market volatility, we don't foresee much upside due to rising rates and a strong USD.
Thigh photolevola remote supply contents but defind to starting to decime.	Oil	► Hiç	gh price levels reflect supply concerns but demand is starting to decline.

Sector Views

Global and regional sector views based on a 6-month horizon

Sector	Global	US	Europe	Asia	Comment
Consumer Discretionary	>	•	•	•	Demand continues to soften on rising inflation, financing and energy costs. Margins remain under pressure from same factors and labour shortages. Pent-up demand allows some companies to raise prices to recover higher input costs. Earnings growth is likely to be challenging. Luxury goods remain a bright spot.
Financials	Þţ	Þţ	>	A	Central banks are forced to tackle inflation by raising rates, which should support bank earnings in the short term but this is more than offset by weaker investment banking and brokerage revenues. Retail banks should be less impacted. The earnings outlook may weaken on lower trading activity.
Industrials	•	•	•	•	Slowing growth and rising input costs (commodities, labour and energy) weigh on margins and sentiment. This should accelerate the trend for greater automation. Supply chain issues persist from multiple causes. Valuations have declined but given the slowing growth environment, sentiment is likely to remain subdued.
Information Technology	> ↓	> ↓	•	•	Although we downgrade Global and US IT to Neutral on slowing growth and lower investment spending, we remain constructive on the sector's growth prospects as digitalisation, electrification and automation should drive above-average growth for the next decade. We focus on high quality, cash-generative businesses.
Communication Services	A	A	•	•	The sector benefits from steady cash flows and growth from increased data usage as more activity shifts on-line and business digitises. The 5G roll-out is positive for telecom equipment providers but neutral/negative initially for service providers.
Materials	A	A	A	>	Despite slowing growth in China, commodity prices are supported by geopolitical instability and under-investment in new capacity to meet surging demand as economies reopen. Demand for commodities linked to the electrification of the economy should support mining stocks. Valuations look attractive. The outlook for chemical and cement stocks is mixed given rising feedstock and energy prices.
Real Estate	>	>	>	•	Private residential real estate is seeing strong demand supported by high savings rate and lower interest rates. Commercial real estate is suffering low demand as corporates look to reduce office space and retail moves online.
Consumer Staples	A	>	A	A	The sector contains many quality stocks with good dividend yields. Valuations are somewhat elevated so we prefer companies with strong brands and/or pricing power which can protect margins and earnings as inflationary pressures mount.
Energy	A	A	A	A	Geopolitical uncertainties, low inventories and supply-demand imbalances continue to drive prices higher. We expect energy prices to either stabilise at these elevated levels or push higher. Chronic under-investment is likely to support prices in the medium term despite the energy transition gaining momentum.
Healthcare	A	A	A	>	Pharma stocks are typically defensive investments being less geared to the economic cycle and are more insulated from inflationary pressures while offering decent dividend yields. Medical technology sector should benefit from pent-up demand for elective surgical procedures in 2022/23 while the biotechnology sector provides more speculative investment opportunities with their innovative medicines.
Utilities	▼	•	•	•	Renewable stocks are attracting attention after stock prices and valuation pulled back significantly from overly optimistic levels. Caution is still required as companies may not be able to pass on rising energy prices which may impact margins negatively.

Important Information:

This document has been issued by The Hongkong and Shanghai Banking Corporation Limited and HSBC Savings Bank (Philippines), Inc. ("the Bank") in the conduct of its regulated business in the Philippines with information provided by The Hongkong and Shanghai Banking Corporation Limited, 1 Queen's Road Central, Hong Kong. It must not be distributed to the United States, Canada, or Australia or to any other jurisdiction where its distribution is unlawful. The contents of this document may not be reproduced or further distributed to any person or entity, whether in whole or in part, for any purpose. All non-authorised reproduction or use of this document will be the responsibility of the user a nd may lead to legal proceedings.

The information contained in this document is general market information. As such, it has no contractual value and should not be taken as an offer, the solicitation of an offer, a recommendation, or advise for the purchase or sale of any investment, product or service.

We do not have any obligation to issue any further publications to you or update the contents of this document. Contents are subject to changes at any time without notice. We make no guarantee, representation or warranty and accept no responsibility for the timeliness of receipt, accuracy, and/or completeness of the information contained in this document.

Investment involves a variety of risks and investors may not get back the amount originally invested. Hence, information contained in this document such as past performance, forecasts, projections, simulations, and other forward-looking statements should not be relied upon as an indication of future performance or results. If you are considering making an investment, please conduct your own due diligence.

Copyright © The Hongkong and Shanghai Banking Corporation Limited and HSBC Savings Bank (Philippines), Inc. 2021. All rights reserved

No part of this document may be reproduced, stored in a retrieval system, or transmitted, on any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior written permission of The Hongkong and Shanghai Banking Corporation Limited.