HSBC Global Management

2019 Global equities outlook

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So 2018 has been a very challenging year for equity investors.

It started off very strongly and was really a continuation of 2017 in the first quarter, but after that, the market has suffered due to geopolitical and macro concerns largely, that's been driven by a Fed, which has continued its rate hiking cycle as the U.S. economy has continued to be strong, and that's concerned equity investors globally, but also an increase in the trade tensions, which we have seen really since the beginning of this year, and that's played very much on investors' minds.

What we've seen is a decline in equity markets, pretty much around the world this year, despite improving fundamentals. In a sense, it's been a little bit of a tug of war between geopolitical risks and equity fundamentals, and although equity fundamentals have been very strong this year, the geopolitical risks seem to have won out in the way that investors have behaved.

Next year, we would expect that situation to reverse. Fundamentals have got stronger because equities are cheaper and more profitable pretty much around the world, and it looks like some of the macro factors that people have been so focused on will be less of a focus going into 2019.

So we're very optimistic for the outlook, particularly for Asia, particularly for late stage developed markets like Europe and Japan, a little bit less so for the U.S., which is a bit earlier in its cycle and still looks a bit expensive relative to its level of profitability when we compare it with other equity markets around the world.

So in terms of equity markets globally, we think that there are many emerging markets where we have some really interesting opportunities where the economies are performing very strongly, where profitability has been very strong and where valuations have actually got cheaper during 2018 and, therefore, overall these markets represent a great opportunity for 2019. Amongst those, we would highlight China in particular within Asia, because China has really been in the eye of the storm with the trade tensions and other geopolitical concerns. As those concerns recede, hopefully going into 2019, we expect some of that fundamental value to be released and we expect those markets to be good and strong performers during 2019. Other markets which we would highlight around the world are Europe and Japan, which are late cycle markets and have also not fared particularly well this year, despite improving profitability and cheaper valuations.

So I think for the fundamental discerning investor, there are now some very interesting opportunities to focus on for 2019. So the key risk for us for 2019 is the macroeconomic cycle, and I think the Fed is front and center of that, so we have to wait and see what happens, but if the Fed continues to act in moderation and in lockstep with the U.S. economy, then actually that risk should not present a big threat to emerging markets or other developed markets during 2019. Geopolitical risks are often very difficult to assess, but the expectation is that the trade tensions, which has been front and center of investors' minds this year, should abate, and if that is the case, that would be a very big positive for Asia so far.