HSBC Global Management

2019 Global alternatives outlook

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With risk premiums decompressing in equity and bond markets, in other words negative returns, alternatives have played a diversification role. They enjoy continued yet more selective inflows that could offset the withdrawal of Central Bank liquidity.

After a couple of years of challenging conditions, hedge fund return has been particularly resilient in 2018, taking advantage of steadily rising volatility and risk across the board. We think that these conditions will continue, will persist in 2019, and it should support global macro strategies and market neutral strategies, generally speaking. On credit, we think that as we progress towards the end of the cycle, this should be positive for credit strategies, distressed debt as an example, as opposed to even driven or more directional equity strategies.

Generally speaking, we think that market conditions will remain somewhat challenging, making fund selection, asset allocation, and portfolio construction key to add value to hedge fund portfolios.

In real estate, we continue to observe two main trends. Firstly, the growing importance of E-commerce, and it's really putting pressure on low quality retail space, but it's also opening opportunities in the industrial sector linked to logistics, for instance, as in the U.S. Secondly, the second trend is the constant interest in direct property, and it has really led to record low yields, which makes the valuations a bit more exposed to an increase in rates and, as a result, leading us to be particularly selective in terms of geographies or in terms of segments. As examples, we would prefer Continental Europe to the U.K., or we would prefer Australia to some Asian cities, such as Tokyo and Shanghai. The same interest for direct property has also led to a discount on listed equities, which we feel builds longer, higher expected returns, but are also opportunities.

In a context of globally rising rates, infrastructure debt has been particularly resilient as investors continue to deploy their allocations. We see particular opportunities in 2019, in Latin America and Asia where we observe particular needs and also higher returns when compared to developed markets such as the U.S. or Europe. In terms of segments, we favor core infrastructures, and also some specialized areas such as renewable energy, and conversely, we would prefer to stay away from segments that could be impacted by the environmental transition, such as fossil fuels or by technology shifts.

In 2019, as we continue to progress towards the end of the credit cycle with rising rates and withdrawn liquidity, stretched valuations, we think that investors must pay particular attention to the steps that can add value in the investment process in alternatives; diversification, of course, but first and foremost manager selection, asset allocation and portfolio constructions.