HSBC Global Management

2019 Global equities outlook

Xavier Baraton, Fixed Income and Alternatives, CIO North America

Leaving behind the perfect Goldilocks scenario, bond markets posted negative returns in 2018, and with investors facing challenging conditions, starting with plateauing global economic growth, trade tensions and, finally, tightening monetary conditions. The latter accelerated, actually, with the end of the ECB purchase programs and with four rate hikes from the Federal Reserve, responding to accelerating wages and inflation and strictly delivering on the dot plot. The global context has not really changed, it has not improved, but we see more positive development for bond markets for three main reasons.

Firstly, with tighter financial conditions in the U.S., and with fiscal stimulus now dissipating, we think the U.S. economy should ease and so should monetary inflationary pressures, even though it remains a key risk for us.

Secondly, global risks should stabilize. As an example, trade tensions should abate as the Trump administration moves into the second half of its term, so idiosyncratic, macroeconomic political risks will continue to cause some volatility, but they should not escalate further.

Finally, valuations are more generous, they are better. We see that with the real yields in the U.S. now nearing 1%, but also with spreads that are now wider for credit and emerging market debt.

Despite prolonged volatility, we see or expect low to mid-single-positive returns for bond markets in 2019. Starting with Government, we are cautious on Euro sovereigns but are neutral on U.S. Treasuries. In credit, we are progressing towards the end of the cycle, and so we are more positive on high yield based on valuations and technicals, such as return to positive inflows in funds, but we are also concerned with the more leveraged situations and will accordingly focus on the BB or single B-rated companies, and pay particular attention to issuer selection and industry selection.

Emerging markets, we see better value now as spreads have widened, currency depreciated. We also are very selective. We favor local debt and hard currency sovereign, and also Asia where we recognize or acknowledge that valuations are particularly attractive.

To conclude, finally, on risk, we believe that investors should pay particular attention to the risk of deceleration in China, and also the risk of acceleration of inflation in the U.S., which for us are of paramount importance.