Video title: Asia investment outlook: All eyes on China

Speaker: Bill Maldonado
Chief Investment Officer, Asia-Pacific
HSBC Global Asset Management

1. What have been the key drivers of markets in the first half of 2019?

There has been two key developments of note this year. Firstly, with respect to the economy, we’ve seen quite a good degree of stabilization, in terms of the US economy, the Chinese economy and therefore the world economy. That has reassured investors greatly. Secondly, it’s clear that the Federal Reserve is on hold for the moment, and that was the second thing that was really worrying investors during 2018. But in reality, the economy has been quite stable during 2018 and into 2019. So, what’s really changed has been sentiment, concerns about the economy and the Federal Reserve have receded. And this has allowed to some extent the latent value in global equity markets to come out. And so far in 2019, we have seen pretty decent performance from equity markets.

2. What is your outlook for China for the rest of 2019? What are the major challenges to the Chinese economy and markets?

We felt that China was doing what it needed to do during 2018, both in terms of stimulating the economy as it was clear that it was hitting a bit of a soft patch. But on the other hand, not overdoing it because it’s important for China to continue with a long-term reform agenda, particularly with respect to shadow banking, leveraging the financial system in general, and other key reforms.

That balance, we think, has been very good and it’s clear now that China is through a soft patch and back onto a very good level of growth. That should allow the latent value in the Chinese market to continue to emerge. The market has done very well so far this year but from quite a low level. And we think that could continue to produce decent returns for the rest of this year and potentially into next year depending on broader global developments as well.

In terms of the major challenges for 2019, a big part of that, at least as far as sentiment is concerned, is the trade agenda with the United States. If that continues to drag on into the second half of 2019, that could certainly prove to be a headwind. Domestically, there are concerns that authorities are going to move to a tightening bias, having stimulated economy in the first part of 2019. We think concerns for this are rather overblown, and we think that domestic policy makers are very good at steering a balance between an overheating economy and stimulating the economy when they need to and when they hit soft patches as it did during 2018 and into 2019.

3. How are other risk factors, such as elections, likely to impact the markets? Are Asian markets still attractive after the recent rally?

It's always very difficult to predict political outcomes and it's even harder to predict the impact on markets. One lesson we can learn from history is that the impact of these political events tends to be rather short-lived. I think the important thing for Asia, is that we have a very broad-based
reform agenda across the markets, in India, in Indonesia, in China and in other markets. That’s a very positive sign for equity markets and should be a continued tailwind over the medium to long term in the region.

In terms of a pecking order of returns, Asia looks very good relative to other asset classes around the world. And, although for example, equities and some fixed income asset classes in the region had a very good run already this year, there is still plenty more to go in terms of valuations before they become even neutrally valued. So, as long as fundamentals remain strong, in terms of earnings and profitability, we expect the markets to continue to produce positive returns for investors.