Video Transcript - HSBC Global Asset Management

Investment Outlook 2020: The Age of Uncertainty

Macro and Multi-Asset Outlook

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We have been in what we call the "Age of Uncertainty" in investment markets in 2019. Trade tensions and recession worries, as well as a host of other issues have created elevated economic, political and policy uncertainty all year. And if we study the themes that have been trending across the financial media, the viral narratives of the year have been around global recession and political uncertainty.

But fascinatingly, against this backdrop of the Age of Uncertainty, investment market performance has been incredibly good. Equity markets have returned over 20 percent in 2019, fixed income markets are up strongly too, and alternatives, particularly private equity and hedge funds, have also performed. We have seen a positive breadth to performance across all asset classes. That's not unusual. But it is notable.

If the environment is so uncertain and feels so risky, why are investment markets performing so well?

First off, much of the political uncertainty has been about threats and sentiment, rather than actual policy action. Second, equity markets already discounted quite a lot of bad news coming into 2019, and that meant that negative surprises in macro and profits news were not so surprising for the market. Third, and the critical part of the story, has been the global policy pivot by policymakers. So policy has moved away from incremental tightening at the start of the year and gone to decisive policy easing at the Fed, at the ECB, and in China, and around the rest of the world. And this policy pivot has forced bond yields down to secular lows in 2019, into negative rates in Europe and Japan, and sent Treasury yields back to post-crisis lows. That, in turn, has supported risk asset classes strongly.

So even in the current Age of Uncertainty, it's meant that rushing to a defensive asset allocation, although that might have felt safe at the time that was a costly strategy for investors who did that in 2019.

So what comes next? Well, a big question is around how this Age of Uncertainty dynamic plays out next. There remain a lot of big unresolved political and macro issues. Will they playout adversely or could they be more benign?

At a minimum, lingering uncertainty probably caps the animal spirits in the economy and rules out a strong and synchronized growth scenario in 2020. But the good news, though, is that after a difficult 2019 for the economy, our nowcast shows that the global economy is in a process of cyclical bottoming.

So looking forward, we what we call a “favorable baseline” for the economy in 2020, and that means slow and steady growth, persistent low inflation, continued accommodative policy, and mid-single-digit corporate earnings growth.

U.S. economic outperformance is likely to fade a bit toward trend in 2020, while Europe and Japan remain the laggards. In China, a further gradual pickup in growth is likely and our nowcast is improving slowly. Chinese policymakers remain ready to provide further support in the event of any renewed slowdown. And in emerging markets, our Asia nowcast is now recovering strongly, and tech and trade cycles are improving too.

Even so, the economic outlook remains vulnerable to shocks in this Age of Uncertainty today.

Well, today, market pricing looks relatively attractive for some risky asset classes, especially versus the negative inflation-adjusted returns on offer in cash and in core fixed income. We think that the investment strategy today should be about compounding carry. In equities, this means Europe and emerging markets where dividend and earnings yields still look good. Or in fixed income, parts of the market where rate duration is relatively low and yields are decent, like Asia credits. And we also advocate a so-called “smart diversification”. Global bonds have been great risk hedges for multi-asset investors in recent years, but we might need to move beyond core bonds to find effective diversification going forward.

Good investment strategy, as always, is about adapting to change, and in the Age of Uncertainty, we need to be dynamic how we build our asset allocation, and to expand our investment strategy across more geographies, into new asset classes, and into new investment styles.

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