News Release

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EMERGING MARKETS AMONG BEST OPPORTUNITIES IN 2018, SAYS HSBC GLOBAL ASSET MANAGEMENT

****Baton of growth momentum passes from advanced to emerging markets****

**** Selected opportunities in emerging market local currency debt and emerging market equities****

HSBC Global Asset Management ("HSBC") believes that the best investment opportunities in 2018 will be found in emerging markets assets such as local currency bonds and Asian equities.

"The baton of growth momentum has been passed from the advanced to the emerging economies. Despite previous concerns, emerging market growth has not been derailed during 2017. We have seen a notably stronger rally in emerging market equities, with robust corporate profits supporting rising valuations. Asia ex Japan equities, for example, have recorded 13 consecutive months of positive earnings revisions since September 2016," says Bill Maldonado, Chief Investment Officer, Asia Pacific at HSBC Global Asset Management.

"Investors should focus on the balance of risks and returns in 2018 and allocate assets to markets that have appealing prices and can benefit from the economic environment," he adds.

Both global stock markets and emerging markets recorded robust returns in 2017 to-date, driven by simultaneous growth across all major economies, low inflation and strong corporate results. Macroeconomic factors have created a favourable business environment and this should continue to support corporate profits in 2018.

However, the 'goldilocks' economic environment – where the environment is 'just right' for growth – seems to be waning. Expectations for growth have risen, while government policy may be somewhat less supportive of growth going forward. Inflation has remained low but has also bottomed out. But, while forces contributing to ideal growth are beginning to soften, there is little risk of a global recession and there is still some good momentum in emerging markets. Such economic and market conditions are usually more conducive to risk assets than government bonds.

"We're seeing the strongest pace of economic expansion since the early 2010s, though it is modest by historic standards. Meanwhile there is strong synchronisation across global economies and diversified growth drivers," Maldonado adds.

Economic Risks in 2018

In the current environment, several possible risks stand out in particular: Some analysts believe a recession is "due", but economies don't run on clocks, and HSBC does not think this is currently likely. Another topic markets are worried about is that we might see central banks focusing more and more on financial stability, and making an error in their policy because of this, and this could lead to an economic recession. Again, HSBC does not believe this is likely.

The major risk that HSBC sees is if inflation started to build up to a point where it forced central banks to raise interest rates faster than expected. The way many asset classes are priced today would mean there would have to be a significant adjustment in financial market prices. If this were to happen there may not be many safe haven options for investors to retreat to. Watching the economic indicators on global growth and inflation will be critical.

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HSBC

Outlook for Equities

HSBC expects equities to continue performing well in 2018, and for emerging markets to outperform developed markets once again, as valuations for emerging market equities remain more attractive despite the strong rally in 2017. However, HSBC does not believe that developed market equities are overvalued and they still have a place in a globally-diversified portfolio.

“Equities across the board look attractive when compared with other asset classes; we see strong economic growth and rising corporate earnings across emerging markets, and emerging market equities in particular have valuations that are generally attractive relative to profitability,” says Nick Timberlake, Head of Equities, Global Emerging Market, HSBC Global Asset Management.

“The main investment opportunities we see for next year in equity markets are in Asia, and especially North-Asian markets such as South Korea and China. Asia looks set to continue growing at a faster clip than the rest of the world, and that will benefit Asian equities,” Timberlake adds.

The key risk to expectations for equities next year centre on the impact of a pick-up in inflation, or if growth remains very strong. In that situation it becomes more likely that central banks around the world, including the Fed, will have to be more aggressive about raising interest rates – though we do not believe this is the most likely scenario.

Outlook for Bonds

For bonds, while we saw a year of positive returns in 2017 there is more nuanced outlook for 2018. The performance of government bonds will largely depend on the decisions of central banks, because bond prices fall when interest rates rise. However, HSBC expects interest rates in the US and Europe to increase little next year. Conversely, corporate bond prices could suffer from rising interest rates, and could be hit as central banks end their bond-buying programmes.

“Emerging market bonds remain our preferred investment for bonds, particularly Asian bonds. We believe their medium-term performance will be positive thanks to better risk-reward and relative valuation profiles,” says Alfred Mui, Head of Asian Credit, Fixed Income, HSBC Global Asset Management.

“Asian bonds will benefit in particular from China’s belt and road initiative as a key driver of activity in coming years. Meanwhile, emerging market bonds generally are set to benefit from improving macro fundamentals and external positions, benign inflationary and default trends, low volatility due to strong home-biased demand – as well as low correlation with other asset classes for diversification benefits and additional factors like improving commodity prices and brisk international trade,” Mui adds.

The main risk for bonds will be if central banks raise interest rates faster than the markets expect, which could cause bond values to fall, and shift the balance of the global economy to lower long-term levels.

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