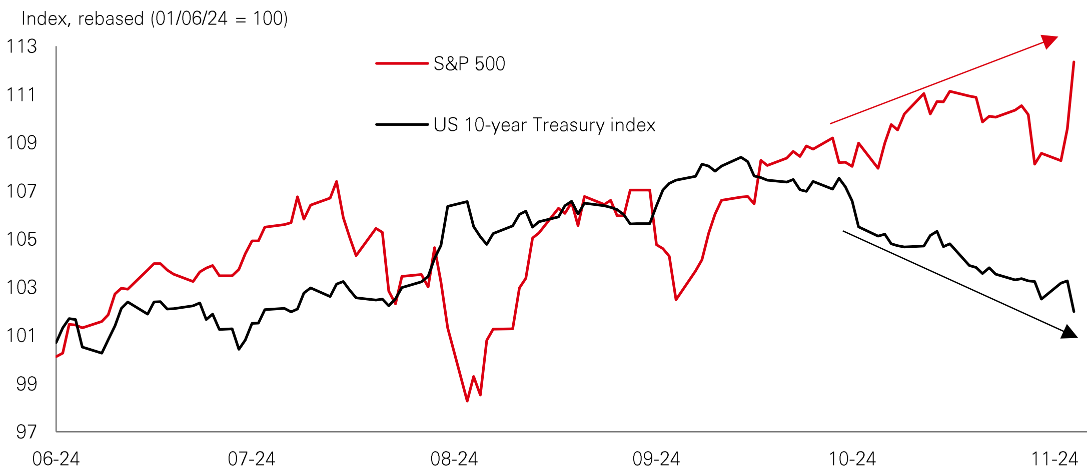
Investment Weekly

11 November 2024

Chart of the week – US stocks and bonds decouple



The S&P 500 hit fresh all-time highs last week with the decisive outcome of the US presidential election removing one form of uncertainty for investment markets. US stocks also found a fresh catalyst via the potential for lower corporate tax rates and deregulation, boosting the profits outlook.

The recent good run in US stocks has coincided with a period of rising US Treasury yields. Investors are grappling with a likely combination of ongoing fiscal activism, global economic fragmentation, renewed inflationary pressures, and a shallower Fed rate cutting cycle.

So far, the stock market has shrugged off the pick-up in yields. But there is no guarantee that higher-for-longer rates won't damage risk appetite. Investment markets have been "hypersensitive" to economic news this year. The addition of **policy uncertainty could intensify market volatility**.

US stock valuations look stretched and profits expectations are elevated. Positive European and Asian growth in 2025 suggests there is still room for markets outside of the US to perform. But **for emerging markets, the dollar outlook is key, as is the next set of policy support measures from China**.

Market Spotlight

Step by step

The Fed looked through the noise of the US elections and delivered a 0.25% cut, which it had been expected to do for several weeks. The rationale for the move was that the funds rate is at restrictive levels while inflation is moderating, and the labour market is back in better balance.

Looking forward, the Fed is faced with a more uncertain outlook, given potentially large changes in fiscal and trade policy. Medium-term upside inflation risks have likely increased while the growth outlook has become more ambiguous – depending on the ultimate mix of fiscal and trade policies, growth could exceed or disappoint current expectations.

Given the more unpredictable outlook, Chair Powell may want to recall the words of former ECB President Mario Draghi, "In a dark room you move with tiny steps". In other words, the best course of action is likely to be gradually taking the policy rate back towards a more neutral level unless data and events push you strongly to do something else.

China Markets →

What policy support might mean for Chinese stocks

Emerging Market FX →

Why some EM currencies are under pressure

Frontier Economies →

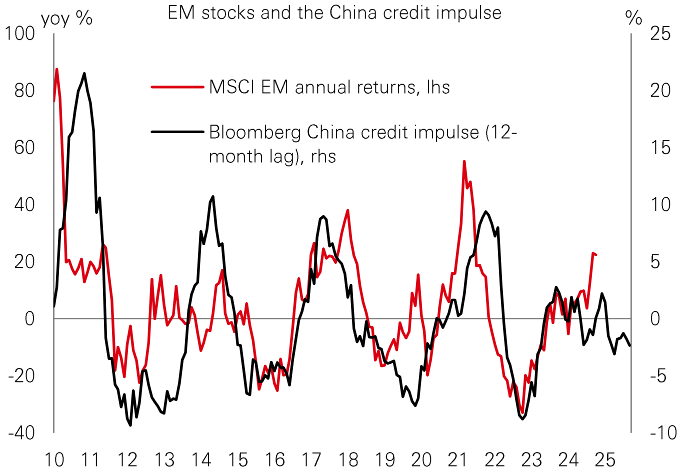
How frontier markets could resist possible trade tensions

Source: HSBC Asset Management. Macrobond, Bloomberg. Data as at 7.30am UK time 08 November 2024.

Chinese momentum

Chinese stocks rallied in September on news of further policy support, and they've largely held those gains. Momentum picked up in early November, and the Shanghai Composite is still up 20%+ since the new measures were announced. Last week, the China National People's Congress (NPC) Standing Committee approved an incremental increase of RMB6 trillion in the local government special debt limit to swap hidden debt over three years through the end of 2026.

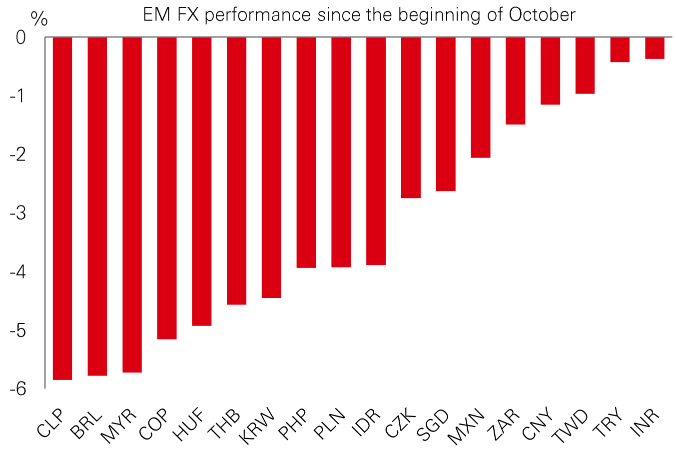
For stocks, the prospect of further policy support could mean strong potential for growth and recovery. **Some specialists see Chinese stocks continuing to trade at a wide discount to peers and still lightly-owned by international investors**. They favour both quality growth companies and high dividend-paying stocks. That said, Chinese firms remain vulnerable to potential risks, including geopolitical tensions and any weakness in global economic conditions.



Emerging FX pressures

President-elect Trump's victory in the US election, together with a strengthening dollar, has reinforced negative sentiment towards emerging market (EM) currencies and local-currency assets. Investors have been nervous about the potential impact of higher US tariffs on global trade, as well as potentially higher bond issuance and a widening of the US fiscal deficit. A repricing of US rate expectations hasn't helped EM assets either.

Weaker EM currencies risk stoking inflation and could prompt a re-assessment of the EM policy outlook. Brazil's central bank hiked rates by 0.50% in October to quell rising inflation, providing relief for the currency. The Brazilian real has weakened nearly 14% this year – hitting a record low following the US election – maintaining the pressure for further tightening amid rising concerns about the sustainability of fiscal policy. **While this is a near-term risk for many EM economies, a number of currencies have long-term valuation buffers**. The Fed-driven global easing cycle, albeit possibly slower and shallower, should limit downside risks, as should the policy-stimulus driven cyclical recovery in China.

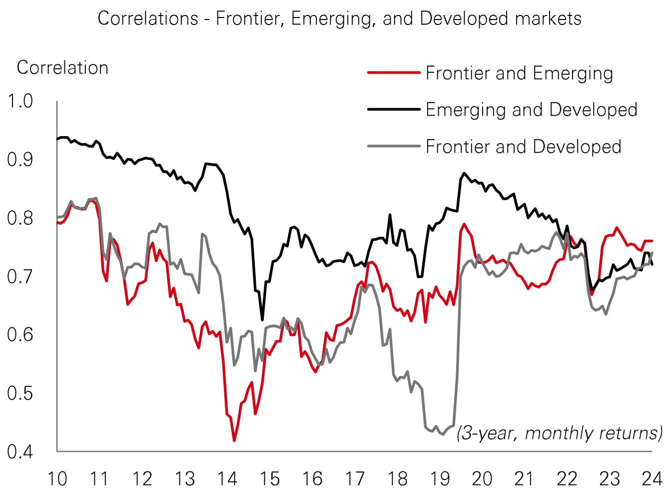


Frontier resilience

A concern for investors ahead of the US election was the potential impact on global trade from aggressive US tariffs. One area which could prove resilient to greater trade frictions is frontier markets, where countries have learnt to steer a path between competing third parties.

Key to this is that frontiers are a relatively low correlation, low volatility asset class in the equity space, with domestically-driven economies. That can shelter them from global macro events. The shift towards a more multi-polar world has tested this, but frontiers are tending to prioritise neutrality.

In Gulf Cooperation Countries, for example, Saudi Arabia has opted to play a mediator role in regional tensions, preferring instead to focus on its domestic economy, social reforms, and diversifying from oil into sectors like tourism and leisure. Another example is Vietnam, which has managed to benefit from 'nearshoring' but still maintains a positive trade partnership with both China and the US. **All in, frontier markets could offer a route through potential tariff tensions**.



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Source: HSBC Asset Management. Macrobond, Bloomberg, Datastream. Data as at 7.30am UK time 08 November 2024.

Key Events and Data Releases

Last week

Date	Country	Indicator	Data as of	Actual	Prior
Mon. 04 November	CN	Start of the 5-day NPC Standing Committee meeting	Nov		
Tue. 05 November	US	ISM Services Index	Oct	56.0	54.9
	AU	RBA Cash Target Rate	Nov	4.35%	4.35%
	US	2024 Presidential Election			
Wed. 06 November	BR	Banco de Brazil SELIC Target Rate	Nov	11.25%	10.75%
Thu. 07 November	US	Fed Funds Rate (upper band)	Nov	4.75%	5.00%
	MX	Headline Inflation (yoy)	Oct	4.8%	4.6%
	UK	BoE MPC Base Rate	Nov	4.75%	5.00%
	NW	Norges Bank Sight Deposit Rate	Nov	4.50%	4.50%
	SW	Riksbank Policy Rate	Nov	2.75%	3.25%
	CN	Trade Balance (USD)	Oct	95.7bn	81.7bn
Fri. 08 November	BR	CPI (yoy)	Oct	-	4.4%
Sat. 09 November	CN	CPI (yoy)	Oct	-	0.4%

CN - China, US - United States, AU - Australia, BR - Brazil, MX - Mexico, UK - United Kingdom, NW - Norway, SW - Sweden

The week ahead

Date	Country	Indicator	Data as of	Survey	Prior
Mon. 11 November	US	Q3 earnings	Q3		
Tue. 12 November	US	NFIB Index of Small Business Optimism	Oct	91.8	91.5
	IN	Industrial Production (yoy)	Sep	2.4%	-0.1%
	UK	Unemployment Rate, ILO	Sep	-	4.0%
	IN	CPI (yoy)	Oct	5.9%	5.5%
Wed. 13 November	US	CPI (yoy)	Oct	2.6%	2.4%
Thu. 14 November	JP	GDP (qoq)	Q3	0.2%	0.7%
	MX	Banxico de Mexico, Overnight Lending Rate	Nov	10.25%	10.50%
Fri. 15 November	US	Retail Sales (mom)	Oct	0.3%	0.4%
	CN	Retail Sales (yoy)	Oct	3.8%	3.2%
	US	Industrial Production (mom)	Oct	-0.4%	-0.3%

US - United States, IN - India, UK - United Kingdom, JP - Japan, MX - Mexico, CN - China

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Market review

Risk appetite rose following the presidential election in the US, with the US dollar strengthening on expectations of continued "US exceptionalism" and looser fiscal policy. Core government bonds weakened, with rising US fiscal concerns lifting US Treasury yields, led by the 10yr. The Fed lowered rates by 0.25%, hinting at a more cautious view on inflation, and the BoE lowered rates by 0.25%. In the US, equities saw broad-based gains, with the S&P500 reaching an all-time high. European stocks weakened, led by lower autos. The Nikkei 225 advanced, as the Japanese yen hovered around its 3-month low. In EM, mainland China's Shanghai composite rallied on encouraging business surveys amid optimism over further fiscal stimulus. Hong Kong's Hang Seng index and Korea's Kospi moved higher. In commodities, OPEC+'s decision to delay production cuts supported oil prices. Gold fell, while copper edged higher.

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