Video Transcript

HSBC Investment Outlook – November 2024 Monthly View
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Market volatility has picked up somewhat in recent days, which is a typical pattern ahead of the US elections. And what's comforting is that history shows that volatility tends to fall back once the result is known.

The other source of comfort comes from the data, which show that economic growth indicators have been better than expected recently, and corporate earnings are beating expectations. And that of course, supporting risk appetite, leading to a rotation into cyclical sectors, but it's also driving up bond yields.

Now what complicates the analysis is that the moves coincide with recent changes in the US election polls, but as the race remains very close, we think it would be dangerous to jump to conclusions. So instead we continue to focus on the fundamentals.

Now, whilst economic surprises are positive, we think the Fed is still on track for 25 basis point cuts in every of the next 6 meetings, so we do not change our bond views. The US soft landing and positive earnings surprises are all bullish for stocks of course, and M&A and corporate investment activity should rise after the elections when there is more clarity, and because borrowing costs are falling, so companies want to position for the big megatrends and benefit from innovation to lift productivity.

All of this not only supports our overweight on the US markets but suggests as well that stocks should remain well supported in most election scenarios. So we maintain our current positioning while we bridge the uncertainty with hedge funds and volatility strategies. We look at the potential impact of the different scenarios in our monthly view document, but market action suggests that many investors are not taking big bets on the outcome currently, and that's not just because polls are close, but also because gridlock in Congress could constrain the room for action, and different factors compensate the market impact.

So, for example, the effect of fiscal stimulus can be offset by the effect of tariffs. We think the industrial and fiscal policies should in most cases help extend the outperformance of US stocks compared to other markets. So we continue with our broad based overweight on US stocks, including technology, communications, financials, industrials and healthcare. Markets are also awaiting more clarity on the scale and timing of China's fiscal stimulus, taking a wait-and-see approach after the liquidity-driven rally that we saw in late September and in early October.

We believe that sustained further upside in Chinese stocks depends on whether the debt deflationary cycle can be broken. So more forceful demand-side stimulus and accelerated destocking of the housing inventory with fiscal support from the central government is needed to turn around the fundamental outlook of the Chinese economy.

But of course, the potential for increased US tariffs adds to the uncertainty. We will closely monitor both the US election outcome and China's policy announcements, but for now, maintain our neutral stance on Chinese stocks. Within Asia, our preference is for Indian, Japanese, Singaporean and Korean stock markets.