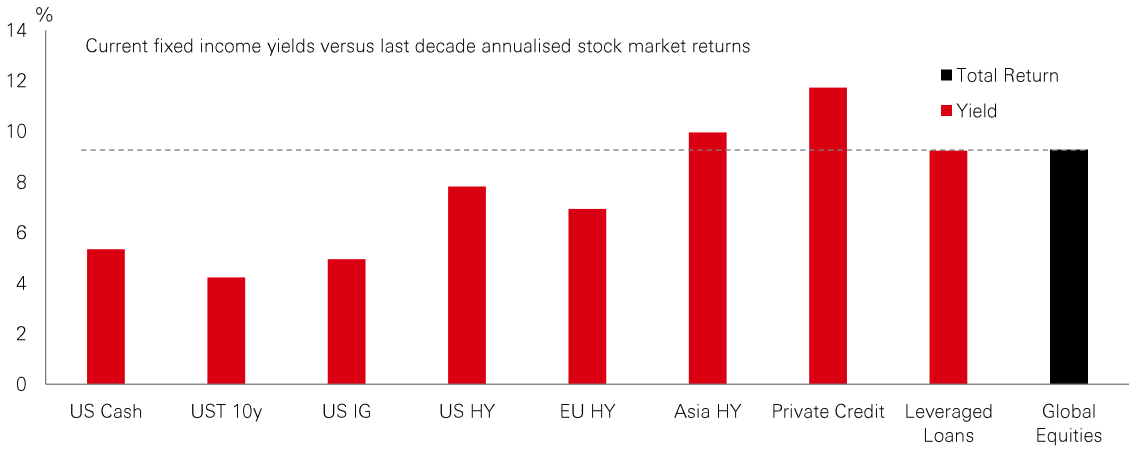
Investment Weekly

17 June 2024

Chart of the week – High "all-in" yields



US Treasuries have been knocked about by macro waves of late, with the past week no exception. The 10-year UST yield jumped c.20bp on bumper payrolls the previous Friday. Then the release of May's inflation data last week – which came in softer-than-expected – helped pull yields back down, hitting a two-and-a-half month low. Nevertheless, investor expectations on Fed easing this year continue to flit between one or two rate cuts. This is roughly in line with the latest FOMC view, although a minority of members expect no cuts at all in 2024.

What it the latest data telling us? Payrolls likely overstate the strength of the labour market. A wider selection of indicators shows that while the labour market is not yet cool, it is cooling. Fed Chair Powell views the market as back to where it was before the pandemic: "tight but not overheated". Equally, while May's core CPI print overstates the pace of underlying improvement, it does at least demonstrate that although inflation has been sticky, it is not completely stuck.

Although risk assets have been the place to be over the past 18 months, **bond yields are high**, with the potential for capital gains if the trend of gradual economic cooling and disinflation continues – and the Fed starts cutting rates.

Indian Economy →

India's fiscal outlook and what it means for markets

European Fixed Income →

Government bond spreads in focus post-election

European Equities →

Why regional earnings growth is broadening out

Market Spotlight

Outlook for Chinese stocks in Q2

Chinese stocks continue to perform relatively well, outpacing both developed and emerging markets during the second quarter. The rebound has been aided by better-than-expected macro data in Q1, especially around exports and accelerating manufacturing and infrastructure investment. Supportive policy, especially for the property sector, resilient earnings and better shareholder returns have also boosted sentiment.

A mix of undemanding equity valuations and an uptick in momentum has led to a pick-up in investor interest. Decade-low foreign allocations to China have shown signs of unwinding, with a closing of underweight gaps compared to levels seen at the start of the year.

An ailing property sector and flagging consumption remain the weak economic links. But with pragmatic policy that keeps up the recovery, international demand could continue to grow.

Source: HSBC Asset Management. Macrobond, Bloomberg. Data as at 11.00am UK time 14 June 2024.

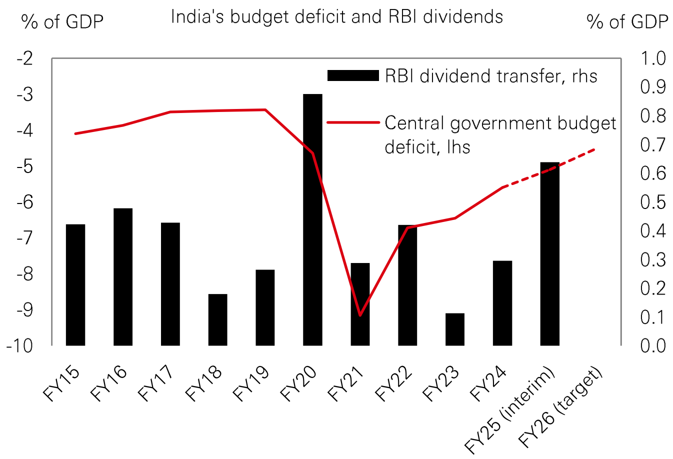
Lens on…

India's fiscal flexibility

Indian stocks broke to new highs last week, quickly recovering from fleeting election-driven volatility. Key to the rebound has been anticipation of policy continuity under the BJP-led NDA coalition.

On the fiscal front, the new government has the advantage of a higher-than-budgeted dividend transfer from the Reserve Bank of India (RBI) and robust tax revenue growth. At 2.1 trillion-rupees (USD25 billion), the RBI's recent payout was twice what was forecast. And that should give the country's leaders more scope to cut the budget deficit and stick to a roadmap of fiscal consolidation.

For now, a little-changed macro trajectory should be supportive for Indian bonds. It comes just as they are about to get greater international exposure when they join JPMorgan's EM government bond index later in June. For equities, attention already appears to be shifting back to medium-term fundamentals, with Indian stocks expected to deliver mid-teens earnings growth this year.

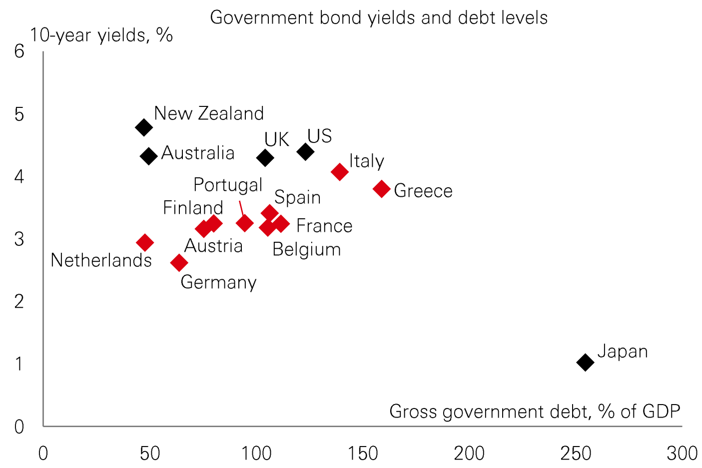


Beware the bond market vigilantes

European market volatility picked up last week after French President Emmanuel Macron called a snap legislative vote in the aftermath of the European Parliament election results.

Higher political and economic uncertainty for France comes at a time when underlying fiscal measures have been deteriorating. S&P downgraded France's sovereign rating from AA to AA- last month. The French government upgraded its 2023 budget deficit/GDP ratio to 5.5%, putting France on the EU's Excessive Deficit Procedure List. The spread between French and German government bond yields has risen to levels last seen in 2017.

At a time when national debt levels in most Western economies have been rising, and defects are wide, **governments will need to tread carefully to avoid the wrath of the bond market vigilantes**. A backdrop of fiscal activism makes this all the more tricky. Positively for Europe, however, disinflation is progressing and the ECB has already cut rates, easing some of the pressure. And higher yields are a key reason why investors can put cash to work in fixed income.

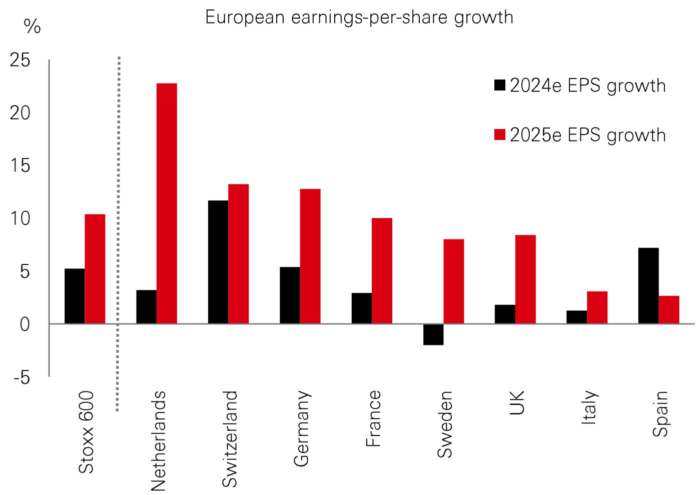


European earnings growth goes north

As the eurozone exits from last year's mild recession and the ECB eases policy, there are significant implications for the outlook for European earnings growth.

In 2024, EPS growth has been fairly concentrated in markets such as Spain and Switzerland, which are relatively defensive. But for 2025, not only is EPS growth expected to double to 10% as the recovery takes hold, there should also be a broadening out of growth to more cyclically-exposed markets, especially in the north.

Next year's earnings outperformers – markets such as Germany, France, and Sweden – also benefit from low valuations, and currently **trade below their 10-year average 12m-forward price-earnings ratios**. And any euro weakness should benefit the region's exporters – with 52% of Stoxx 600 revenues generated outside of Europe. But while the economic growth trajectory looks set to improve, the outlook still depends on future Fed policy and continuing economic momentum in the US.



Past performance does not predict future returns.

Source: HSBC Asset Management. Macrobond, Bloomberg. Data as at 11.00am UK time 15 June 2024. Any views expressed were held at the time of preparation and are subject to change without notice.

Key Events and Data Releases

Last week

Date	Country	Indicator	Data as of	Actual	Prior
Sun. 9 June	EZ	European Presidential Elections (results)	Jun		
Tue. 11 June	US	NFIB Business Confidence Index	May	90.5	89.7
Wed. 12 June	CN	CPI (y-o-y)	May	0.3%	0.3%
	IN	CPI (y-o-y)	May	4.8%	4.8%
	IN	Industrial Production (y-o-y)	May	5.0%	5.4%
	US	CPI (y-o-y)	May	3.3%	3.4%
	US	Federal Reserve Interest Rate Decision	Jun	5.50%	5.50%
Thu. 13 June	TW	Taiwan Central Bank Interest Rate Decision	Jun	2.00%	2.00%
Fri. 14 June	JP	BoJ Interest Rate Decision	Jun	0.10%	0.10%
	US	University of Michigan Consumer Confidence Index	Jun (P)	-	69.1

P – Preliminary, Q – Quarter EZ – Eurozone, US – United States, CN – China, IN – India, TW – Taiwan, JP – Japan

The week ahead

Date	Country	Indicator	Data as of	Survey	Prior
Mon. 17 June	CN	1-year MLF rate	Jun	2.50%	2.50%
	CN	Retail Sales (y-o-y)	May	3.0%	2.3%
	CN	Industrial Production (y-o-y)	May	6.0%	6.7%
Tue. 18 June	AU	RBA Interest Rate Decision	Jun	4.35%	4.35%
	US	Retail Sales (m-o-m)	May	0.2%	0.0%
	US	Industrial Production (m-o-m)	May	0.4%	0.0%
Wed. 19 June	UK	CPI (y-o-y)	May	2.0%	2.3%
	BR	COPOM Interest Rate Decision	Jun	10.50%	10.50%
Thu. 20 June	UK	BoE Interest Rate Decision	Jun	5.25%	5.25%
	US	Housing Starts (m-o-m)	May	1.1%	5.7%
Fri. 21 June	JP	Nationwide CPI excluding fresh food & energy (y-o-y)	May	2.2%	2.4%
	EZ	HCOB Composite PMI	Jun (P)	-	52.2
	IN	S&P Global Composite PMI	Jun (P)	-	60.5
	US	S&P Global Composite PMI	Jun (P)	-	54.5
	US	Existing Home Sales (m-o-m)	May	-1.1%	-1.9%

P – Preliminary, Q – Quarter CN – China, AU – Australia, US – United States, UK – United Kingdom, BR – Brazil, JP – Japan, EZ – Eurozone, IN - India
Source: HSBC Asset Management. Data as at 11.00am UK time 14 June 2024.

Market review

Benign US CPI data boosted risk markets last week. Core government bonds rallied as investors digested comments from Fed Chair Powell. The median Fed member expects one rate cut in 2024, down from three cuts in March. There were diverging trends between US and European equities: the S&P 500 rose to a record high, powered by the Magnificent 7 technology stocks, but rising political uncertainty weighed on the Euro Stoxx 50. Japan's Nikkei 225 was little changed as the BoJ left policy on hold. In EM, the Shanghai Composite weakened amid lingering deflation concerns, while India's Sensex consolidated after rebounding from recent volatility. Markets in Taiwan and Korea traded higher on positive read-across from the US tech sector. In commodities, energy prices recovered on a solid demand outlook, with oil on course for its best week in two months. Gold priced also edged higher.