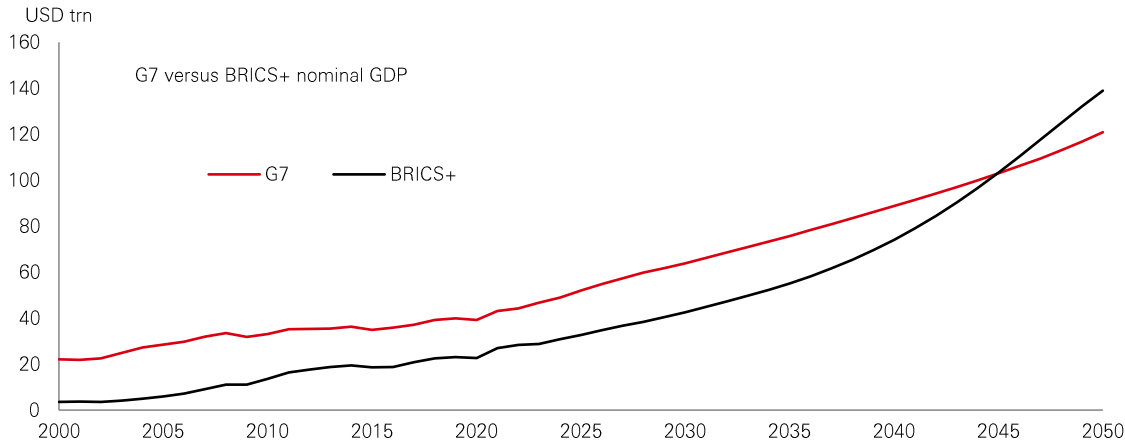




Investment Weekly

24 June 2024

Chart of the week – Growing economic power in the global south



Investment markets continue to embed a positive outlook for global economic and corporate earnings growth – consistent with limited damage from the impact of high rates. Market implied measures of volatility are at rock-bottom levels, and sentiment is bullish. But geopolitics remains a key risk to this benign outcome for markets.

Heading into H2, a number of significant events in the political calendar could inject more volatility into investment markets – elections in France and the US in particular, will be watched closely. Political risks look to be stacking up.

And more generally, **the global economic system looks more susceptible to geopolitical shocks** now. The global economy is fragmenting. Globalisation is running out of steam. This has come as economic power shifts to Asia and emerging markets – the share of world GDP from the BRICS-plus is set to accelerate in the next couple of decades – allowing them to increasingly flex their economic muscles.

There will be some ‘winners’ from this global shift. India, Mexico, and Southeast Asian economies such as Vietnam and Malaysia can benefit from the trends of ‘friend-shoring’ and ‘near-shoring’. **Country-level economic performance is set to be increasingly idiosyncratic** – good news for investors hoping to find diversification in their EM allocation. But the big picture consequence is a more volatile and unpredictable economic regime.

Central Banks →

Rethinking the outlook for policy rates

Currencies →

Year of the yen?

Market Spotlight

Premium yields from private credit

The fast-growing private credit market has been well positioned to benefit from the current high-for-longer rates environment. As a largely floating rate asset class, current yields of more than 11% are higher than many other credits, and greater than the historic returns from global equities over the last decade.

After growing rapidly for more than 10 years, new private credit fundraising fell slightly in 2023, to an expected USD200 billion. Recent data suggest that decline has continued in 2024. In part, it’s because high rates are putting pressure on some borrowers and reducing demand in areas of the market.

But credit specialists think more certainty on the timetable for rate cuts will reinvigorate the market. And while lower base rates would mean yields easing back from current highs, private credit will remain a relatively high yielding portfolio diversifier that carries an illiquidity premium. Meanwhile, the ongoing retrenchment of banks from many areas in which they were historically dominant should mean the market for private lending continues to grow.

Equity Markets →

Exploring the recent rally in Turkish stocks

The value of investments and any income from them can go down as well as up and investors may not get back the amount originally invested. Past performance does not predict future returns. The level of yield is not guaranteed and may rise or fall in the future.

This information shouldn’t be considered as a recommendation to buy or sell specific sector/stocks mentioned. Any views expressed were held at the time of preparation and are subject to change without notice.

Source: HSBC Asset Management. Macrobond, Bloomberg. Data as at 11.00am UK time 21 June 2024.

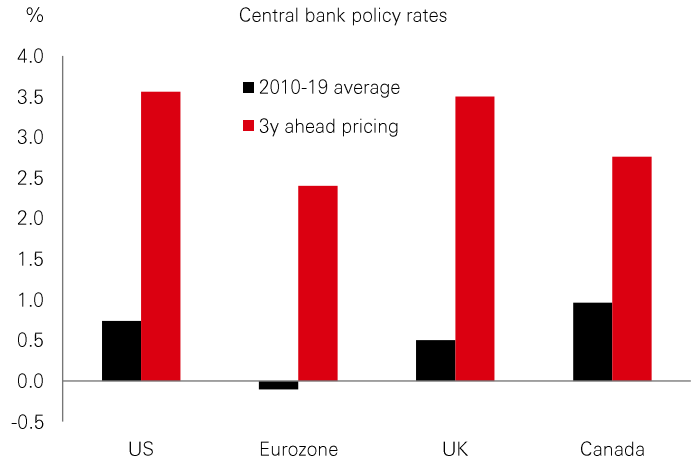
A new regime for rates

Coming into 2024, markets were pricing between five and seven rate cuts for the major western central banks. Now, they are looking for one to three, depending on the central bank in question.

Importantly, this does not just represent a delay to the rate cutting cycle; longer-term policy rate expectations have also shifted up meaningfully over the past six months, from levels that were already well above the pre-Covid norm.

Ultimately, the resilience of economies in the face of high policy rates has convinced markets that the neutral interest rate has risen across economies, and we have moved decisively away from the post-GFC era of ultra-low rates.

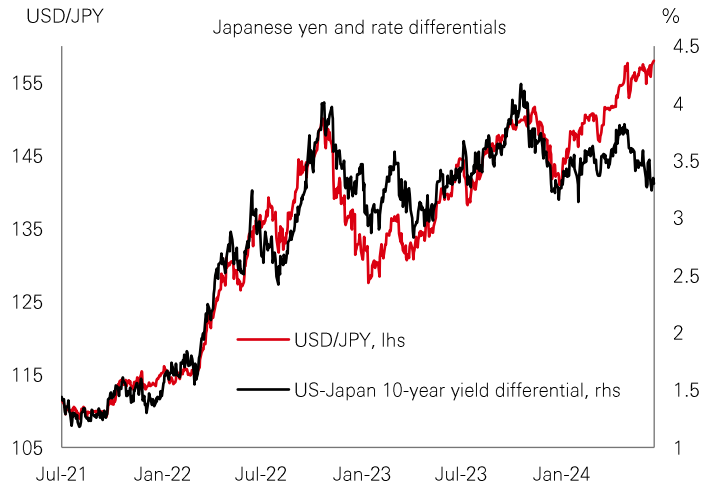
This has left **yields across a range of fixed income assets at attractive levels**, allowing us to 'put cash to work'. In addition, high quality bonds can provide some protection should any downside growth risks materialise, given central banks have ample room to cut rates if needed.



Year of the yen?

The currency is down 11% year-to-date against the US dollar – hitting a 34-year low. The rationale for a yen resurgence in 2024 was simple – Fed cuts combined with gradual Bank of Japan normalisation. But the Fed has delayed its rate cutting cycle. And the Bank of Japan has underwhelmed with its exit from ultra-accommodative policy – with previous week's BoJ meeting disappointing investors expecting detail on the paring back of its bond buying – leaving the currency vulnerable.

H2 could see a revival in the yen's fortunes. We have a scenario for modest dollar depreciation from here as US growth leadership wanes and the Fed tees up its first cut. The yen also looks disconnected from underlying rate differentials. But vital to a recovery of the currency will be more rapid BoJ normalisation which in turn requires greater evidence of sustained inflationary pressures.

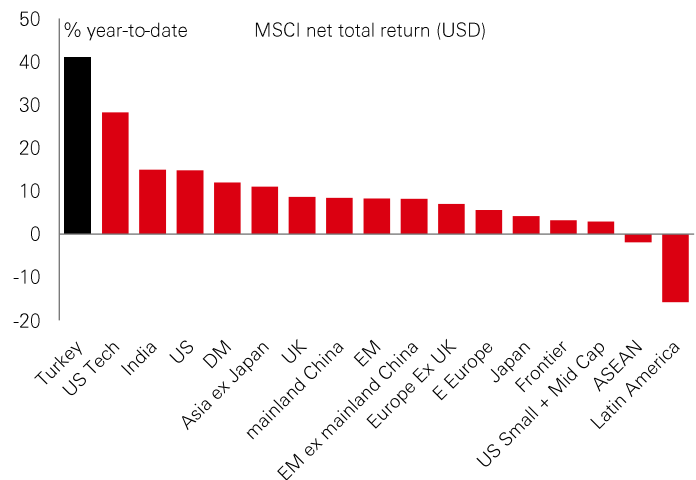


Turkey's mega-rally

Turkey's stock markets began 2024 on a solid footing. In early March, momentum was already building, with foreign investors enthused by a shift to more orthodox economic policymaking, and increased activity from a strong domestic retail base. Since then, the MSCI Turkey index has rallied by another 25%.

The Turkish government still seems committed to reducing inflation, with recent news flow indicating that Finance Minister Şimşek will continue to prioritise it. Analysts expect CPI inflation to begin a steep descent from here, falling from 75% in May to around 50% by year end.

They think this can help equity multiples continue to edge higher from still-depressed levels (and well below the 10x average before 2017). They also factor in a decent 10% of earnings growth for 2024 and a stellar 38% for 2025, with financials, insurance and service sectors potentially outperforming names more sensitive to higher financing costs and a stronger lira.



Past performance does not predict future returns.

Source: HSBC Asset Management. Macrobond, Bloomberg. Data as at 11.00am UK time 21 June 2024.



Key Events and Data Releases

Last week

Date	Country	Indicator	Data as of	Actual	Prior
Mon. 17 June	CN	1-year MLF rate	Jun	2.50%	2.50%
	CN	Retail Sales (y-o-y)	May	3.7%	2.3%
	CN	Industrial Production (y-o-y)	May	5.6%	6.7%
Tue. 18 June	AU	RBA Interest Rate Decision	Jun	4.35%	4.35%
	US	Retail Sales (m-o-m)	May	0.1%	-0.2%
Wed. 19 June	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	-5.5%	4.2%
Fri. 21 June	JP	Nationwide CPI excluding fresh food & energy (y-o-y)	May	2.1%	2.4%
	EZ	HCOB Composite PMI	Jun (P)	50.8	52.2
	IN	S&P Global Composite PMI	Jun (P)	60.9	60.5
	US	S&P Global Composite PMI	Jun (P)	-	54.5

P – Preliminary, Q – Quarter CN – China, AU – Australia, US – United States, BR – Brazil, UK – United Kingdom, JP – Japan, EZ – Eurozone, IN – India

The week ahead

Date	Country	Indicator	Data as of	Survey	Prior
Mon. 24 June	JP	Summary of Opinions from Board Members at June meeting	Jun		
	GE	Ifo Business Climate Index	Jun	89.3	89.3
Tue. 25 June	US	Case Shiller 20 City House Price Index (y-o-y)	May	-	7.4%
	US	Conference Board Consumer Confidence Index	Jun	100.0	102.0
Wed. 26 June	US	New Home Sales (m-o-m)	May	2.5%	-4.7%
Thu. 27 June	PH	Philippines Central Bank Interest Rate Decision	Jun	6.50%	6.50%
	TK	Turkish Central Bank Interest Rate Decision	Jun	50.00%	50.00%
	MX	Banxico Interest Rate Decision	Jun	11.00%	11.00%
	US	Biden-Trump First Debate	Jun		
Fri. 28 June	JP	Tokyo CPI ex fresh food & energy (y-o-y)	Jun	1.6%	1.7%
	JP	Industrial Production (m-o-m)	May (P)	2.0%	-0.9%
	US	Core PCE	May	2.6%	2.8%

P – Preliminary, Q – Quarter JP – Japan, GE – Germany, US – United States, PH – Philippines, TK – Turkey, MX – Mexico

Source: HSBC Asset Management. Data as at 11.00am UK time 21 June 2024.



Risk appetite remained positive amid a light week for economic data, with core government bonds largely range-bound. Ten-year French sovereign yields stabilised after the recent sell-off, with the European Commission suggesting that seven EU countries should be added to the EU Excessive Deficit Procedure. In a holiday-shortened week, US equities rose modestly, with the tech-driven Nasdaq testing new highs. The Euro Stoxx 50 index rebounded, led by French stocks, whilst Japan's Nikkei 225 weakened as the yen fell to a two-month low against the US dollar. There was a mixed performance in EM equities, with Brazil's stocks edging higher despite Banco do Brasil pausing its easing cycle. The Shanghai composite index fell modestly amid mixed Chinese data, while India's Sensex was flat. In commodities, oil prices continued to recover on rising demand optimism. Copper and gold rose.

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