

HSBC Investment Outlook Q4 2022 (Released 7 September 2022)

Top trends and high conviction themes

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2022 has been a rollercoaster year for investors, but the US economy has been a beacon of relative stability and our preferred equity market. It is also the topic of our American Resilience investment theme which focuses on high quality US companies.

With the spectre of recession hanging over Europe and the Chinese economy decelerating, US companies with a high exposure to the US domestic economy; or those providing essential goods; or have solid brands and pricing power should continue to thrive.

We include companies from both defensive and to a lesser degree cyclical sectors which should benefit from robust capital spending and R&D spending including several large US government programs. Energy, food, services and technology industries are best positioned to weather the current market turmoil.

Energy is also a global topic: On average globally we consume about 35bn barrel of oil a year or 97m per day. Each barrel of oil consumed generated on average 430kg or almost 1000 pounds of CO₂. That is truly shocking!

Despite the compelling evidence linking CO₂ emissions from fossil fuels to climate change, governments, businesses and consumers have been reluctant to take action.

The recent sharp rise oil and gas prices has had significant economic and social impact, and driving a greater sense of urgency to energy transition. Added to that, hostilities are leading many countries to diversify supplies and reduce dependencies.

We capture this in our Energy Transition & Independence investment theme where we identify beneficiaries of these developments including on hydro, solar and wind industries, but also nuclear power is likely being seen as potentially part of the solution.

Earlier, I mentioned the slowing global economy, market flux is evident in Asia where valuations are near multi-year lows.

Here lies the opportunity, but externalities rather than fundamentals are driving sentiment with trade tensions, slowing economy, regulatory actions and of course the pandemic.

Our Asia Champions at Great Value seeks to navigate the equity markets identifying undervalued high-quality stocks while avoiding value traps, i.e. stocks that are cheap for a reason. These established, growing business are often trading on low-double or single digit PEs and often above favourable dividend yields.

We believe stocks with these types of profile have attractive risk return profiles.

Let's turn back to global events and communities that have been tested increasingly extreme weather, conflicts, pandemics and shortages of goods.

All present uncertainty and heightened concerns and a renewed focus on security in the broadest sense of the word. Our Total Security theme focuses personal, corporate and national aspects of increasing security including resilient supply chains; infrastructure; cybersecurity.



Video Transcript

Companies are mitigating supply chain risks using a variety of strategies including on-shoring; near-shoring; diversification of suppliers; internalisation.

For example, electric vehicle and battery manufacturers are scrambling to guarantee long term supplies of nickel, cobalt and lithium with long term supply contracts, joint ventures or vertical integration.

The rise of fintech and ecommerce has exposed new and evolving vulnerabilities in our digital infrastructure that represent a real threat to everyone from bank accounts; identity; national security and commercial secretsthe list is endless.

Our Total Security theme identifies companies that offer solutions to these challenges.

If you would like more information on the topics I have covered please contact your investment counsellor or relationship manager.

Thank you!