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Video Transcript

HSBC Global Private Banking – August 2024 Monthly View

Sticking to our strategy as markets adapt to US politics
Willem Sels

The busy news flow around the US elections is understandably a big focus for markets. According to the polls and betting odds, Mr Trump's chances of winning the election increased after the Presidential debate and the shocking assassination attempt. It's interesting to analyse how the market reacted, through what is often called the Trump reflationary trade – even though probabilities around the election outcome will probably continue to shift with Kamala Harris now likely becoming the Democratic nominee.

The most visible aspect of the Trump trade is a sharp rotation away from technology and the Magnificent 7 towards small cap stocks. Deregulation and tax cuts could indeed be positive for US corporates but we think the rotation was exacerbated by short covering of speculators' negative bets on small caps, financed by profit taking on technology stocks – which is a popular overweight. We don't think there are good reasons to flee from technology; our policy instead remains to broaden sector exposure, as earnings growth outside of the Mag7 stocks accelerates, broadening the opportunity set. In the coming months, the election news will probably continue to create two-way volatility and rotation, so it makes sense to look for strategies that provide some protection. But we remain invested because our fundamental starting assumption is that regardless of how the polls go, resilient US earnings growth, strong innovation and the prospect of Fed rate cuts starting in September warrant an overweight on US stocks.

We've also started to see increasing worries about the rising US government deficits – especially in the case of one party controlling both the White House and Congress (in other words, a 'clean sweep'). This may be a longer-term problem, but for now, the market's primary focus should be on the Fed's policy. And given the decline in June CPI, we expect a September rate cut, which supports our overweight on quality corporate bonds.

As for the US dollar, we don't think Presidents can talk it down sustainably, even if they try. From 2016 to 2020, the dollar's moves were determined by rate hikes and rate cuts, global growth differentials and COVID, not politicians' statements. Today, the US dollar is supported by strong earnings and innovation in the US, investment flows and interest rate differentials. So after the recent weakness, we think it should find support.

What about the rest of the world? Trade tariffs could hit both Europe and Asia. But in Europe, the mild improvement in the economic data provides an offsetting tailwind. On a relative basis, we prefer the UK over the Eurozone, as economic surprises are more constructive in the UK, and investors hope the new government will help create better sentiment. In Asia, the Third Plenum did not materially change the outlook so we maintain our neutral view on Chinese stocks, while we continue to overweight Indian stocks and bonds as reforms should re-accelerate and India's cyclical momentum remains strong.