

**HSBC Investment Outlook – October 2024 Monthly View****Willem Sels**

This month, we examine the ripple effects of the Fed's September meeting on markets, which is not just about the decisive 0.5% rate cut, but also about the Fed's message that the US economy will not go into a recession.

We agree with the Fed's economic view and expect further cuts in each of the next six Fed meetings. Now, both of those aspects, of course, support global risk appetite whilst the rate cuts now clearly make cash less attractive and raise the importance of putting cash to work.

Now, while markets have of course already priced in the expected rate cuts, history does show us that equities can rally substantially further after the first rate cut, if a recession is avoided, as we expect.

So how to position within bonds and equities?

Well, we think the rate cuts and the drop that we've already seen in Treasury yields will broaden the search for yield in bonds beyond our preferred areas (which remain investment grade and hard currency emerging market corporate bonds) to include more local currency emerging market bonds which we have upgraded from an underweight to a neutral position.

And that's because the Fed rate cuts make emerging market currencies more resilient and also allow more emerging market central banks to cut rates sooner. In the equity markets, rate-sensitive sectors and cyclicals have, of course, rallied following the Fed meeting.

But we think sector and style rotation is also driven by other factors, like investors wanting to diversify their tech exposure and reduce concentrated positions ahead of the US elections, binary risk. We therefore continue to believe that the best approach is to broaden sector exposure, but remain balanced between cyclicals and defensives.

We have raised utilities in light of the rate cuts and our view that many can benefit from rising electricity demand but offset this by upgrading the more cyclical communications sector. Like many investors, we want to avoid overpaying when picking stocks, but we also want to see solid growth and that drives us into a GARP approach, which stands for Growth At a Reasonable Price.

Lastly, we discussed the recent support package by China's regulators and Central Bank, which includes rate cuts, reduced reserve requirements and the stock market stabilisation fund. Now, the measures are more ambitious than expected, but still fall short of the big bang stimulus that is needed to break the deflationary spiral.

So while we see tactical opportunities, we remain neutral on Chinese stocks and continue to diversify within the region. Singapore, which is a very open economy, should benefit, of course, from any pickup in regional sentiment from the global resilient economy and also from the search for yield supporting its REIT sector. So we upgrade Singapore stocks to overweight.

Lastly, where appropriate, we note the key role of alternatives in a diversified portfolio, especially for those investors with the necessary risk tolerance and those who find Treasury yields unattractive at this level. Hedge funds have a big opportunity set. Real estate is starting to see increased activity in some areas. Private equity should benefit from any improvements in lending conditions, and private credit continues to provide an attractive yield.