

After the shock: can portfolios stabilise in 2023?

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I'm Jonathan Sparks, the UK CIO for HSBC Private Banking and Wealth.

I'm going to go through why we think this year, there's grounds for optimism for more portfolio stability.

Last year was really a shocking year for portfolios, and the reason why is because we had this bout of inflation that wasn't really expected by the markets.

So consequently, what happened was interest rates rose to basically fight this inflation, but amid that, growth was slowing.

So, even though you had higher interest rates, equities weren't really showing any signs of having higher corporate earnings growth, which meant that equity valuations started to fall as rates rose.

So, this was quite an unusual mix actually, in the last 100 years, it's only been four years this has really happened on this level, where you've seen bonds and equities fall quite severely with this co-movement, and them both falling together and rising together.

So, what we saw was basically this kind of positive correlation between equities and bonds. And as an investor, that means that your portfolio is going to show this increased level of volatility, because basically your bond and equity portfolio, part of your portfolio, are moving together.

Last year really underscored some of the key elements of portfolio construction. I mean, the first is diversification. If you had alternative investments last year, that would've really helped dampen that volatility.

Also, it goes to show that while you may get periods where it looks like your portfolio is having higher volatility than you would expect, it doesn't normally persist for too long.

So even if you look at last year when we had rates moving a lot higher, consequently this year you are having the slow down in growth and your bond portfolio will start working for you again.

And then ultimately, you'd expect your equities to recover and perhaps then yields would drift slightly higher. So therefore, you have this period where actually you've got your bond and equity portfolio kind of working against each other a little bit and dampening that volatility.

In summary, amid the more gloomy outlook this year, there's good reason to believe that actually portfolios would be more stable, but this does mean that you have to be diversified.

Also, it's a good idea to stay invested, and if you have any concerns, please talk to your relationship manager.