HSBC Private Banking

US Perspectives

30 June 2021

Future looks bright but volatile for US equities

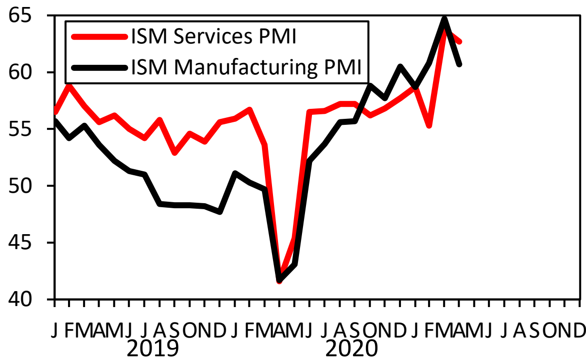
Jose Rasco, CIO
Chief Investment Officer,
Americas, Private Banking and
Wealth Management, HSBC
jose.a.rasco@hsbcpb.com
+1 212 525-3264

Key Highlights

- Through June 25th, the S&P 500 has risen 14%, out-performing the MSCI world index which has risen only 12.4%.
- Year-to-date the best performing sectors have been energy, real estate, communication services, and financials. In the last month growth stocks have outperformed value stocks, led by energy, technology, real estate, and consumer discretionary.
- We remain overweight on US equities with a growth bias and focused on the inventory rebuild and consumer pent-up demand.
- We expect corporate earnings growth to remain very strong and inflation to begin to normalize as supply and demand come more in balance
- US equity investors look for strength in economic growth from inventories being replenished to pre-Covid levels and we expect consumer spending to remain strong as the unemployment rate continues to drift lower.
- In the second half of the year, we expect dividend policies to increase, corporate buyback programs to expand, and M&A activity to remain strong.
- Finally, corporate balance sheets continue to look healthier which suggests we could see an upgrade cycle in high yield corporate credit. This is significant for US equities as the cost of capital goes lower with upgrades, further improving the prospects for profitability.

Manufacturing and services both strong

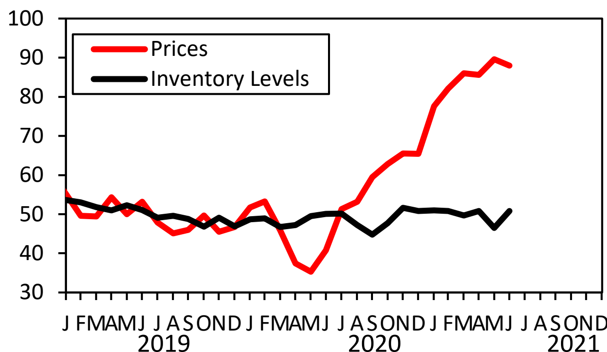
ISM manufacturing and services PMI



Source: Bloomberg, HSBC Private Banking as of 6/29/2021. Past performance is not a reliable indicator of future performance.

Lack of inventory pushing prices higher

ISM inventories vs. prices paid



Source: Bloomberg, HSBC Private Banking as of 6/29/2021. Past performance is not a reliable indicator of future performance.

Potential headwinds: Inflation & The Fed

The two issues that have irked equity markets have been inflation and the Fed. Inflation has remained stubbornly high as historically low inventory levels have caused supply shortages in most industries from raw materials to finished goods. The inflation has occurred mostly in sectors where demand has been the most vibrant like autos, housing, and most major commodities. We believe that as supply rises to meet demand and inventories rise, we expect inflation to normalize.

The US Federal Reserve has also caused some consternation for equity investors of late. In June, the US Federal Reserve announced that while it was not raising policy rates now, they would probably vote to do so in 2023, perhaps by as much as 50 basis points. The FOMC also issued new economic assumptions for the next several years. The forecast for growth was revised up to 7.0% in 2021 while the assumption for inflation were revised up materially in 2021. Given that the FOMC did not lift its median forecast for PCE inflation in subsequent years, it suggests the Fed maintains a view that the acceleration in inflation remains transitory and will not become a more pervasive problem for financial markets.

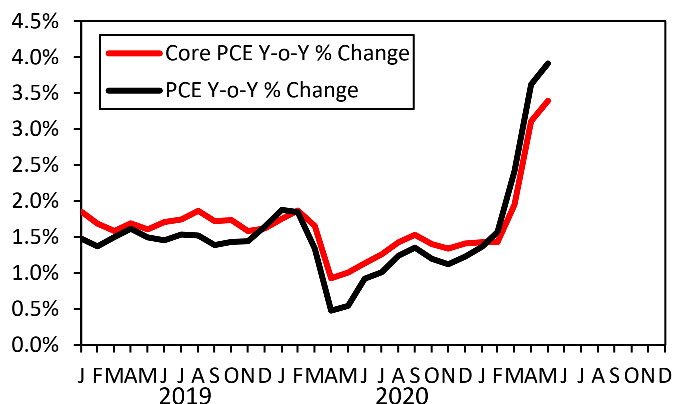
In regards to tapering the quantitative easing program already in place, the Fed maintained its current pace of purchases of both US treasuries and mortgage-backed securities. In the Q&A session, the Fed Chairman, Jerome Powell, did say that "we will provide advanced notice before announcing any decision to make changes to our purchases". Given this assurance, it seems that QE tapering could take months to plan and execute. As a result of the Fed's decisions today, we maintain our risk-on view with an overweight to global equities. Our overweight in the US remains in place with a focus on cyclical stocks and the consumer sector.

For fixed income investors, the potential that we could see a tapering of quantitative easing programs later this year or in 2022 implies that we could see a more positively sloped, or steeper, yield curve. However, it is important to remember that higher treasury yields would most probably result in increased global demand for US treasuries. This could keep upper constraint on longer dated fixed income yields.

For global investors, any extension of the "lower for longer" scenario suggests to us that the business cycle could be extended as the structure of US rates could remain accommodative for longer than expected. In the credit markets, any modest lift in yield could be positive for demand in the corporate credit markets as well. The expansion of the current business cycle and improving economic and financial fundamentals should continue to drive the number of upgrades in corporate credit higher, as quality continues to improve. Historically, these factors have been positive for equity valuations.

Inflation rising due to demand

Core PCE vs. PCE inflation



Source: Bloomberg, HSBC Private Banking as of 6/29/2021. Past performance is not a reliable indicator of future performance.

The consumer & real estate

As the US economy continues to reopen, we remain positive on consumer related stocks. Fiscal and monetary policy have been quite accommodative lifting consumer spending as the economy recovers. The savings rate stands at 12% in May, while the unemployment rate continues to drift lower. Despite some weakness in spending in May, real personal consumption looks like it could rise 10% in the second quarter.

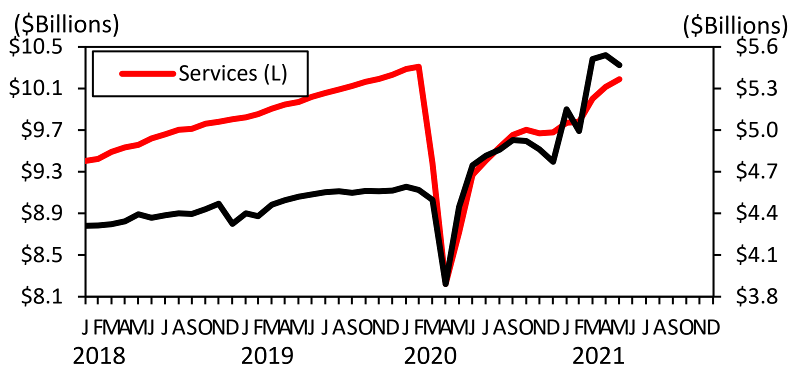
As the summer ensues, look for consumer spending on services to rise rapidly as consumers go to restaurants, bars, theaters, and take vacations and cruises.

As the unemployment rate continues to decline, look for consumers to continue to search for new housing. That demand should continue to boost housing starts and home sales. In addition, as consumers return to work, look for the commercial and office real estate markets to improve as well. As consumers return to the office and shopping malls, the commercial real estate markets should get some much needed relief which could drive valuations higher in these two sectors.

Goods spending well above pre-Covid levels.

Services on its way

PCEs: Real goods vs. services

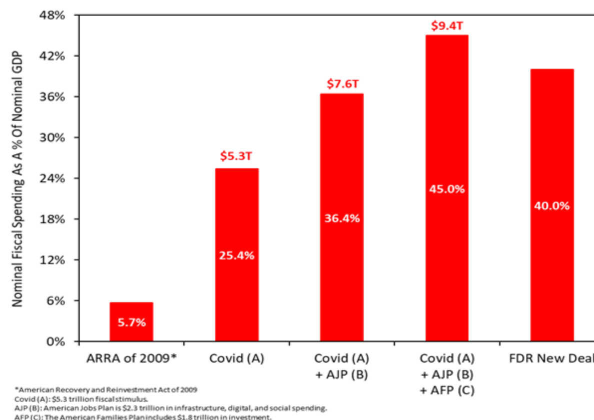


Source: Bloomberg, HSBC Private Banking as of 6/29/2021. Past performance is not a reliable indicator of future performance.

Bipartisan infrastructure deal

We have long suggested that an infrastructure program in the US is crucial as we begin a multi-year rollout of emerging technologies. Historically, infrastructure spending has created jobs, wealth, and lifted productivity and profitability. The Biden administration and a group of Republican senators recently cobbled together a compromise deal on an infrastructure program. The $1.25 trillion infrastructure deal includes $579 billion in new spending over eight years, focusing only on physical infrastructure such as roads, bridges, rail, broadband internet, water and sewer pipes, and electric vehicles. The good news for US equity investors is that the plan proposes several ways to pay for the spending without increasing taxes. These include: increased scrutiny on IRS tax enforcement, and re-purposing of funds from other programs. In addition, the deal would also create a new Infrastructure Financing Authority to issue bonds for clean transportation and energy. While President Biden stated support for the bill, he also made it clear he would pursue separate legislation on "human infrastructure", which is opposed by Republicans and would probably have to go through reconciliation to pass.

Biden's proposed fiscal stimulus plans totaled $9.4 trillion, or 45% of GDP, which exceeds FDR's New Deal in the 1930s



Source: HSBC Private Banking as of 6/29/2021. Past performance is not a reliable indicator of future performance.

Investment Summary

US equity markets have outperformed global markets in the first half of 2021. Given the continued reopening of the US economy we believe that US equity markets will continue to perform well in the second half of the year as growth remains strong and profitability vibrant. Shifts to dividend and stock repurchase plans, combined with strong M&A, all suggest higher equity valuations.

The Fed did not change its policy outlook at its June meeting, keeping policy rates in place for the foreseeable future. This suggests that the financial underpinnings of its accommodative monetary policy remain firmly in place in the near term. Until the unemployment rate declines toward pre-Covid levels it seems this policy stance will rule the day. Obviously, as the economy continues to broaden out and normalize, and the supply/demand imbalance currently in place is resolved, the Fed seems determined to maintain the liquidity and low rate structure needed to lift economic activity. As a result, we remain in a risk-on mode, with an overweight to global equities. Given the Fed's stance, our overweight on US equities remains appropriate. We remain focused on sectors that benefit from the rebound in consumer spending and the rebuilding of inventories in the US economy, such as: consumer discretionary, real estate, financials, and technology. We look for US equity markets to continue to advance but as the cycle advances and central banks and governments adjust policy accordingly, expect market volatility to pick up.

IMPORTANT NOTICE

The following may be subject to local requirements.
This is a marketing communication issued by **HSBC Private Banking.** This document does not constitute independent investment research under the European Markets in Financial Instruments Directive ('MiFID'), or other relevant law or regulation, and is not subject to any prohibition on dealing ahead of its distribution. HSBC Private Banking is the principal private banking business of the HSBC Group. Private Banking may be carried out internationally by different HSBC legal entities according to local regulatory requirements. Different companies within HSBC Private Banking or the HSBC Group may provide the services listed in this document. Some services are not available in certain locations. Members of the HSBC Group may trade in products mentioned in this publication.
This document is provided to you for your information purposes only and should not be relied upon as investment advice. The information contained within this document is intended for general circulation to HSBC Private Banking clients and it has not been prepared in light of your personal circumstances (including your specific investment objectives, financial situation or particular needs) and does not constitute a personal recommendation, nor should it be relied upon as a substitute for the exercise of independent judgement. This document does not constitute and should not be construed as legal, tax or investment advice or a solicitation and/or recommendation of any kind from the Bank to you, nor as an offer or invitation from the Bank to you to subscribe to, purchase, redeem or sell any financial instruments, or to enter into any transaction with respect to such instruments. The content of this document may not be suitable for your financial situation, investment experience and investment objectives, and the Bank does not make any representation with respect to the suitability or appropriateness to you of any financial instrument or investment strategy presented in this document.
If you have concerns about any investment or are uncertain about the suitability of an investment decision, you should contact your Relationship Manager or seek such financial, legal or tax advice from your professional advisers as appropriate.
Market data in this document is sourced from Bloomberg unless otherwise stated. While this information has been prepared in good faith including information from sources believed to be reliable, no representation or warranty, expressed or implied, is or will be made by HSBC Private Banking or any part of the HSBC Group or by any of their respective officers, employees or agents as to or in relation to the accuracy or completeness of this document.
It is important to note that the capital value of, and income from, any investment may go down as well as up and you may not get back the original amount invested. Past performance is not a guide to future performance. Forward-looking statements, views and opinions expressed and estimates given constitute HSBC Private Banking's best judgement at the time of publication, are solely expressed as general commentary and do not constitute investment advice or a guarantee of returns and do not necessarily reflect the views and opinions of other market participants and are subject to change without notice. Actual results may differ materially from the forecasts/estimates. When an investment is denominated in a currency other than your local or reporting currency, changes in exchange rates may have an adverse effect on the value of that investment. There is no guarantee of positive trading performance.
Foreign securities carry particular risks, such as exposure to currency fluctuations, less developed or less efficient trading markets, political instability, a lack of company information, differing auditing and legal standards, volatility and, potentially, less liquidity.
Investment in emerging markets may involve certain additional risks, which may not be typically associated with investing in more established economies and/or securities markets. Such risks include (a) the risk of nationalization or expropriation of assets; (b) economic and political uncertainty; (c) less liquidity in so far of securities markets; (d) fluctuations in currency exchange rate; (e) higher rates of inflation; (f) less oversight by a regulator of local securities market; (g) longer settlement periods in so far as securities transactions and (h) less stringent laws in so far the duties of company officers and protection of Investors.
You should contact your Relationship Manager if you wish to enter into a transaction for an investment product. You should not make any investment decision based solely on the content of any document.
Some HSBC Offices listed may act only as representatives of HSBC Private Banking, and are therefore not permitted to sell products and services, or offer advice to customers. They serve as points of contact only. Further details are available on request.
In the United Kingdom, this document has been approved for distribution by HSBC UK Bank plc whose Private Banking office is located at 8 Cork Street, London W1S 3LJ and whose registered office is at 1 Centenary Square, Birmingham, B1 1HQ. HSBC UK Bank plc is registered in England under number 09928412. Clients should be aware that the rules and regulations made under the Financial Services and Markets Act 2000 for the protection of investors, including the protection of the Financial Services Compensation Scheme, do not apply to investment business undertaken with the non-UK offices of the HSBC Group. This publication is a Financial Promotion for the purposes of Section 21 of the Financial Services & Markets Act 2000 and has been approved for distribution in the United Kingdom in accordance with the Financial Promotion Rules by HSBC UK Bank plc, which is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.
In Guernsey, this material is distributed by HSBC Private Banking (C.I.) a division of HSBC Bank plc, Guernsey Branch which is licensed by the Guernsey Financial Services Commission for Banking, Insurance Intermediary and Investment Business. **In Jersey**, this material is issued by HSBC Private Banking (Jersey) which is a division of HSBC Bank plc, Jersey Branch: HSBC House, Esplanade, St. Helier, Jersey, JE1 1HS. HSBC Bank plc, Jersey Branch is regulated by the Jersey Financial Services Commission for Banking, General Insurance Mediation, Fund Services and Investment Business. HSBC Bank plc is registered in England and Wales, number 14259. Registered office 8 Canada Square, London, E14 5HQ. HSBC Bank plc is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.
In France, this material is distributed by HSBC France. HSBC Private Banking is the private banking department of the HSBC Group in France. HSBC France is subject to approval and control by the Autorité de Contrôle Prudentiel et de Résolution [Prudential Control and Resolution Authority] as a credit entity. HSBC Private Banking, HSBC France - Public Limited Company with share capital of 474.964.025 €- SIREN 775 670 284 Trade and Companies Register of Paris Bank and Insurance Intermediary registered with the Organisme pour le Registre des Intermédiaires en Assurances [Organisation for the Register of Insurance Intermediaries] under no. 07 005 894 (www.orias.fr) - Intra-community VAT number: FR 707 756 702 84. HSBC Private Banking, HSBC France – Registered office: 103 avenue des Champs-Elysées, 75008 Paris - Postal address: 109 avenue des Champs-Elysées, 75419 Paris Cedex 08, Tel. +33 (0) 1 49 52 20 00.
In Switzerland, this material is distributed by HSBC Private Bank (Suisse) SA, a bank regulated by the Swiss Financial Market Supervisory Authority FINMA, whose office is located at Quai des Bergues 9-17, 1201 Genève, Switzerland. This document does not constitute independent financial research, and has not been prepared in accordance with the Swiss Bankers Association's "Directive on the Independence of Financial Research", or any other relevant body of law.
In Abu Dhabi Global Markets (ADGM) by HSBC Bank Middle East Limited, ADGM Branch, 3526, Al Maqam Tower, ADGM, Abu Dhabi, is regulated by the ADGM Financial Services Regulatory Authority (FSRA). Content in this material is directed at Professional Clients only as defined by the FSRA and should not be acted upon by any other person.
In Dubai International Financial Center (DIFC) by **HSBC Private Bank (Suisse) S.A., DIFC Branch**, P.O. Box 506553 Dubai, United Arab Emirates, which is regulated by the Dubai Financial Services Authority (DFSA) and is permitted to only deal with Professional Clients as defined by the DFSA.

In South Africa, this material is distributed by HSBC Private Bank (Suisse) SA's Representative Office approved by the South African Reserve Board (SARB) under registration no. 00252 and authorized as a financial services provider (FSP) for the provision of Advice and Intermediary Services by the Financial Sector Conduct Authority of South Africa (FSCA) under registration no. 49434. The Representative Office has its registered address at 2 Exchange Square, 85 Maude Street, Sandown, Sandton.
In Bahrain and Qatar, this material is distributed by the respective branches of HSBC Bank Middle East Limited, which is locally regulated by the respective local country Central Banks and lead regulated by the Dubai Financial Services Authority.
In Lebanon, this material is handed out by HSBC Financial Services (Lebanon) S.A.L. ("HFLB"), licensed by the Capital Markets Authority as a financial intermediation company Sub N°12/8/18 to carry out Advising and Arranging activities, having its registered address at Centre Ville 1341 Building, 4th floor, Patriarche Howayek Street, Beirut, Lebanon, P.O.Box Riad El Solh 9597.
In Hong Kong and Singapore, THE CONTENTS OF THIS DOCUMENT HAVE NOT BEEN REVIEWED OR ENDORSED BY ANY REGULATORY AUTHORITY IN HONG KONG OR SINGAPORE. HSBC Private Banking is a division of Hongkong and Shanghai Banking Corporation Limited. In Hong Kong, this document has been distributed by The Hongkong and Shanghai Banking Corporation Limited in the conduct of its Hong Kong regulated business. In Singapore, the document is distributed by the Singapore Branch of The Hongkong and Shanghai Banking Corporation Limited. Both Hongkong and Shanghai Banking Corporation Limited and Singapore Branch of Hongkong and Shanghai Banking Corporation Limited are part of the HSBC Group. This document is not intended for and must not be distributed to retail investors in Hong Kong and Singapore. The recipient(s) should qualify as professional investor(s) as defined under the Securities and Futures Ordinance in Hong Kong or accredited investor(s) or institutional investor(s) or other relevant person(s) as defined under the Securities and Futures Act in Singapore. Please contact a representative of The Hong Kong and Shanghai Banking Corporation Limited or the Singapore Branch of The Hong Kong and Shanghai Banking Corporation Limited respectively in respect of any matters arising from, or in connection with this report.
Some of the products are only available to professional investors as defined under the Securities and Futures Ordinance in Hong Kong / accredited investor(s), institutional investor(s) or other relevant person(s) as defined under the Securities and Futures Act in Singapore. Please contact your Relationship Manager for more details.
The specific investment objectives, personal situation and particular needs of any specific persons were not taken into consideration in the writing of this document. To the extent we are required to conduct a suitability assessment in Hong Kong where this is permitted by cross border rules depending on your place of domicile or incorporation, we will take reasonable steps to ensure the suitability of the solicitation and/or recommendation. In all other cases, you are responsible for assessing and satisfying yourself that any investment or other dealing to be entered into is in your best interest and is suitable for you.
In all cases, we recommend that you make investment decisions only after having carefully reviewed the relevant investment product and offering documentation, HSBC's Standard Terms and Conditions, the "Risk Disclosure Statement" detailed in the Account Opening Booklet, and all notices, risk warnings and disclaimers contained in or accompanying such documents and having understood and accepted the nature, risks of and the terms and conditions governing the relevant transaction and any associated margin requirements. In addition to any suitability assessment made in Hong Kong by HSBC (if any), you should exercise your own judgment in deciding whether or not a particular product is appropriate for you, taking into account your own circumstances (including, without limitation, the possible tax consequences, legal requirements and any foreign exchange restrictions or exchange control requirements which you may encounter under the laws of the countries of your citizenship, residence or domicile and which may be relevant to the subscription, holding or disposal of any investment) and, where appropriate, you should consider taking professional advice including as to your legal, tax or accounting position. Please note that this information is neither intended to aid in decision making for legal or other consulting questions, nor should it be the basis of any such decision. If you require further information on any product or product class or the definition of Financial Products, please contact your Relationship Manager.
In Luxembourg, this material is distributed by HSBC Private Banking (Luxembourg) SA, which is located at 16, boulevard d'Avranches, L-1160 Luxembourg and is regulated by the Commission de Surveillance du Secteur Financier ("CSSF").
In the United States, HSBC Private Banking offers banking products and services through HSBC Bank USA, N.A. – Member FDIC and provides securities and brokerage products and services through HSBC Securities (USA) Inc., member NYSE/ FINRA/SIPC, and an affiliate of HSBC Bank USA, N.A.
Investment products are: Not a deposit or other obligation of the bank or any affiliates; Not FDIC insured or insured by any federal government agency of the United States; Not guaranteed by the bank or any of its affiliates; and are subject to investment risk, including possible loss of principal invested.
Australia
If you are receiving this document in Australia, the products and services are provided by The Hongkong and Shanghai Banking Corporation Limited (ABN 65 117 925 970, AFSL 301737) for "wholesale" customers (as defined in the Corporations Act 2001). Any information provided is general in nature only and does not take into account your personal needs and objectives nor whether any investment is appropriate. The Hongkong and Shanghai Banking Corporation Limited is not a registered tax agent. It does not purport to, nor does it, give or provide any taxation advice or services whatsoever. You should not rely on the information provided in the documents for ascertaining your tax liabilities, obligations or entitlements and should consult with a registered tax agent to determine your personal tax obligations.
Where your location of residence differs from that of the HSBC entity where your account is held, please refer to the disclaimer at https://www.privatebanking.hsbc.com/disclaimer/cross-border-disclosure for disclosure of cross-border considerations regarding your location of residence.
No part of this publication may be reproduced, stored in a retrieval system, or transmitted, on any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior written permission of HSBC UK Bank plc.
A complete list of private banking entities is available on our website, https://www.privatebanking.hsbc.com.
©Copyright HSBC 2021
ALL RIGHTS RESERVED