Q3 / 2020

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HSBC Jade Perspectives

Shaping your investment portfolio

HSBC Jade

Together we thrive

Contents

4 **At a Glance**
A summary of Q3 2020 HSBC Jade Perspectives

6 **Quarterly Themes**
Four themes to focus on for the coming quarter

12 **Investment Views**
Where to invest your money?

16 **HSBC Perspective**
Expected returns in the new normal

18 **External Perspective**
"A glimpse of the future as markets stabilise"
Ben Powell, Managing Director, Chief Investment Strategist, APAC at BlackRock Investment Institute

20 **Markets Review**
What has happened in the global equity and bond markets?

HSBC Jade Perspectives is a publication specifically created for our Jade clients.

It explores the key global themes relevant to today's investors, while explaining their diverse implications.

Cautious now, but hopeful for the future

When our last issue was published, stocks had crashed as investors digested the implications of the COVID-19 crisis. As we write, the US stock market is trading at levels similar to before the COVID-19 selloff, having rallied over 30% since the lows experienced in March.

And yet the near-term economic outlook is uncertain, the viability of many jobs remains unclear, and perhaps most importantly, the pandemic is far from over and further waves of infection can't be ruled out.

So why are markets so bullish? We believe there are three main reasons:

Firstly, investors are being driven by short-term sentiment. Despite the uncertain economic outlook, there's still more good news than bad at present, with businesses starting to open again and hopes of a breakthrough in virus treatment or vaccine development. Governments are also determined to prevent a full-blown depression by implementing a broad range of economic support packages.

Secondly, due to unprecedented policy support, interest rates are at record lows (and occasionally negative), making government bonds and cash less attractive than ever. In most markets, yields on these assets are below inflation, meaning that the holder's purchasing power diminishes over time. This strengthens the case for stocks and other higher-yielding investments.

Thirdly, the stock market has been powered by companies benefitting from the crisis. With more people working from home, collaborating via meeting apps and entertaining themselves with video-on-demand, a set of behaviours that were already on the rise are now deeply entrenched. As a result, companies that offer these services, or which provide vital technology infrastructure, have prospered. It's no surprise that the US technology sector has spearheaded the rally (see more on page 18).

As behaviours continue to evolve, what kind of "new normal" are we heading for? A return to life "exactly as it was" before the crisis feels increasingly unlikely. Businesses, particularly in retail and hospitality, must find ways of adapting to a socially-distanced world, at least for the foreseeable future. Geopolitical risks are another consideration becoming more prevalent, and Environmental, Social and Governance (ESG) factors are increasingly more resonant in the world around us.

Investors will need to navigate all this, along with the challenge of a zero-interest-rate environment. Diversification will be key but they will also need to reconcile themselves with the possibility that returns on their investments could be lower in the coming years (see more on page 16).

We aim to address all these topics, both in this issue and in our broader suite of publications. We hope you and your families are staying safe and wish you a successful and resilient investment journey ahead.

Jan-Marc Fergg

Xian Chan

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Global Head, Wealth Investments & Products

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Global Head of Wealth Insights

At a glance:

- We remain cautious because of near-term uncertainties and are tactically neutral on global equities.
- We have strategically upgraded investment grade corporate bonds because of more attractive valuations, particularly compared to government bonds. Central banks have also started buying corporate bonds, which should support prices.
- We prefer focusing on investments in regions that stand to do well following the crisis, such as Asia. We have downgraded Europe, Japan and Latin American equities because these markets face longer-term economic challenges and arguably lack the policy ammunition to emerge well from the crisis.

At a glance

A summary of Q3 2020 HSBC Jade Perspectives

Investment themes

1

Brace for an unsettled but hopeful recovery

2

Invest into the economic downturn

3

Look beyond the crisis for opportunities

4

Guard against geopolitical risks

Investment Views Summary (>12 months)

Bonds	Q2	Q3	Change
Developed Market Government Bonds	▼	▼	-
Emerging Market Government Bonds (local currency)	▲	▲	-
Global Investment Grade Corporate Bonds	▶	▲	Upgrade
Global High Yield Corporate Bonds	▲	▲	-
Equities			
Global	▲	▲	-
United States	▲	▲	-
Eurozone	▲	▶	Downgrade
United Kingdom	▲	▲	-
Japan	▲	▶	Downgrade
Emerging Markets	▲	▲	-
Central & Eastern Europe and Latin America	▶	▼	Downgrade
Asia (excluding Japan)	▲	▲	-

▲ "Overweight" implies a positive tilt towards the asset class, within the context of a well-diversified, typically multi-asset portfolio.

▼ "Underweight" implies a negative tilt towards the asset class, within the context of a well-diversified, typically multi-asset portfolio.

▶ "Neutral" implies neither a particularly negative nor a positive tilt towards the asset class, within the context of a well-diversified, typically multi-asset portfolio.

Source: HSBC Global Asset Management, as of 1 Jul 2020. For full investment views, please see page 12.

Things we are watching

COVID-19 related issues

- COVID-19 case growth dynamics
- Central bank and government policies
- Macro-economic data
- Vaccine development or virus treatment

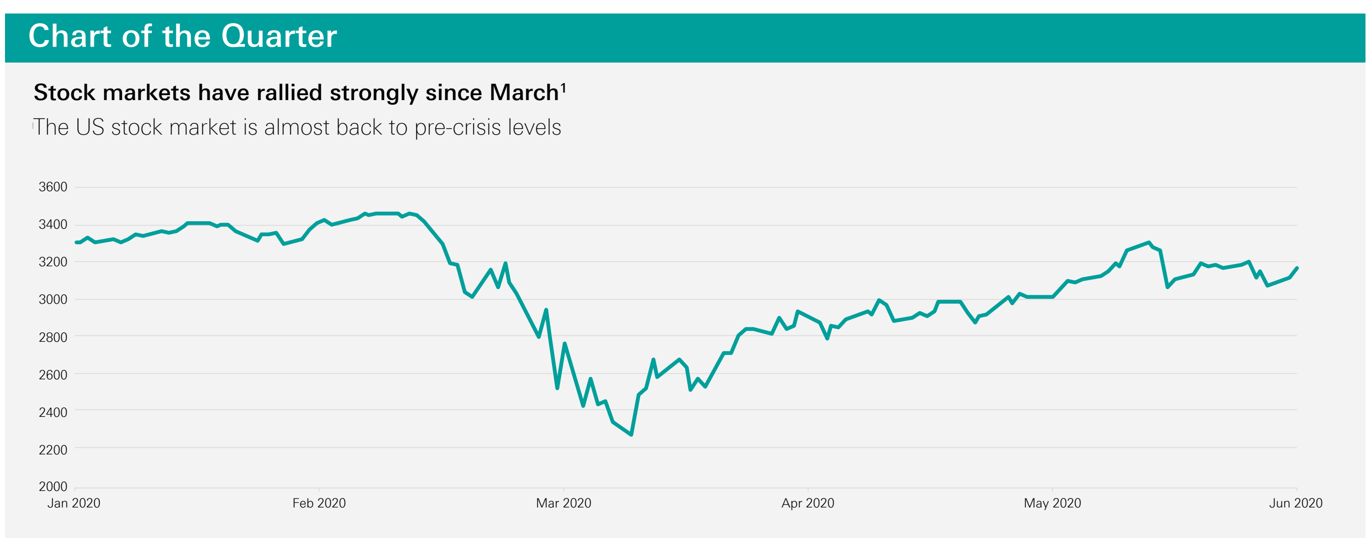
Geopolitics

- US-China tensions
- Brexit negotiations
- 2020 elections in the US

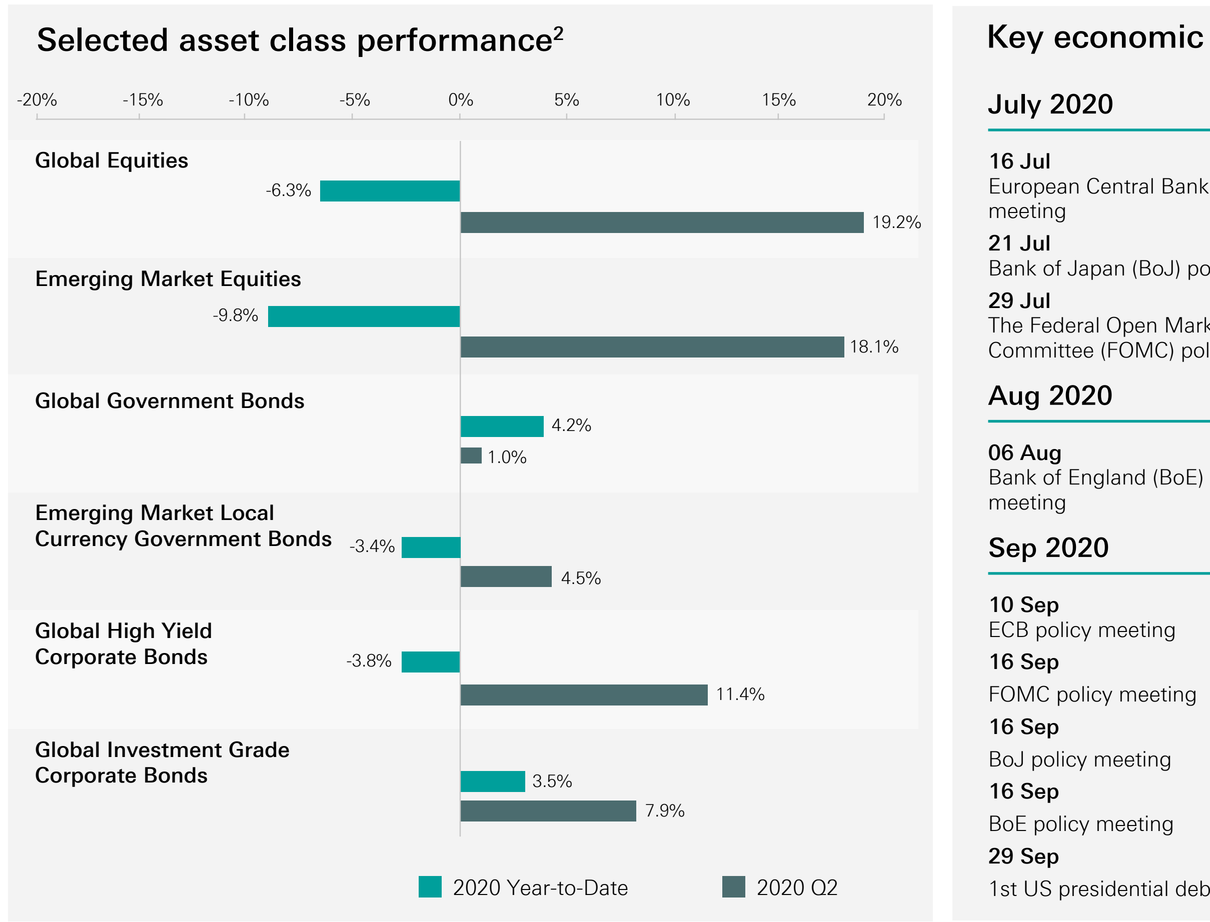
Chart of the Quarter

Stock markets have rallied strongly since March[1]

The US stock market is almost back to pre-crisis levels



Selected asset class performance[2]



Key economic events

July 2020

16 Jul
European Central Bank (ECB) policy meeting

21 Jul
Bank of Japan (BoJ) policy meeting

29 Jul
The Federal Open Market Committee (FOMC) policy meeting

Aug 2020

06 Aug
Bank of England (BoE) policy meeting

Sep 2020

10 Sep
ECB policy meeting

16 Sep
FOMC policy meeting

16 Sep
BoJ policy meeting

16 Sep
BoE policy meeting

29 Sep
1st US presidential debate

Source: Datastream Refinitiv, 30 Jun 2020

1. Source: Refinitiv Datastream, data as of 30 Jun 2020. Investment involves risks. Past performance is not indicative of future performance. For illustrative purpose only. Index used: S&P 500 index.

2. Source: Refinitiv Datastream, data as of 30 Jun 2020.

Note: the chart shows total returns of asset classes in USD dollar (USD). Asset class performance is represented by different Indices – Global Equities: MSCI ACWI Net Total Return Index; Global Government Bonds: Bloomberg Barclays Global Aggregate Treasuries Total Return Index; Global High Yield Corporate Bonds: Bloomberg Barclays Global High Yield Corporate Total Return Index; Global Investment Grade Corporate Bonds: Bloomberg Barclays Global Aggregate Corporate Total Return Index; Emerging Market Equities: MSCI Emerging Net Total Return USD Index. Emerging Market Local Currency Government Bonds: Bloomberg Barclays Emerging Market Local Currency Government Total Return Index.

Positioning your portfolio for the next quarter

COVID-19 has brought a decade-long economic expansion to an abrupt halt. Despite many economies starting to reopen, the potential for a second wave and an assortment of geopolitical risks mean the path to recovery remains uncertain.

Our view is that the short-term risks will ultimately pave the way for long-term gain. With that in mind, we continue to prefer equities over low-yielding bonds for the long term. But because of the short-term risks, it's still necessary to prepare for shocks, hence the need to diversify with high quality bonds. We have a preference for investment grade corporate bonds because of their modestly higher yields compared to government bonds. Also, we think they will remain relatively stable because central banks like the US Federal Reserve have committed to purchasing them. Accordingly, we have strategically upgraded the asset class to Overweight.

On global equities, we remain Overweight long-term but tactically Neutral because of the uncertainty. Some geographic regions are facing challenges ranging from tepid tepid growth that predates the crisis (Europe and Japan) to economies suffering from weak commodity prices (Latin America). Accordingly, we have downgraded these regional equities groups to Neutral.

Longer-term, we think there are opportunities in Asian equities and bonds due to the region's attractive structural characteristics. Also, Asia gels well with trends like increased digitisation, which have been accelerated by COVID-19.

More broadly, changing consumer behaviours and new business models have also become more prevalent. Trends like digitisation, sustainability and automation are combining to make a visible difference to the world around us. Investors should look beyond the crisis to identify some of these opportunities.

The following **four themes** will help you navigate the investment landscape as we enter the second half of 2020.

1

Brace for an unsettled but hopeful recovery

The continuing uncertainties caused by COVID-19 will have significant economic and financial consequences. We expect global GDP to shrink by 4.8% in 2020 followed by a rebound in 2021.

2

Invest into the economic downturn

Despite poor economic data, stock markets have rebounded quickly. We believe investors should stay invested for the near term and consider long-term allocations to equities and corporate bonds. We are short-term Neutral on equities and corporate bonds because of the short-term uncertainty.

3

Look beyond the crisis for opportunities

While anxiety may linger in the here and now, investors should balance this with hope for the future. We like the prospects of certain geographic regions like Asia and believe investments in companies benefitting from changing consumer behaviours will bear fruit. We are long-term Overweight on equities and corporate bonds because of the opportunity going forwards.

4

Guard against geopolitical risks

Despite the current focus on the COVID-19 crisis, other factors including US-China tensions and Brexit could jeopardize the market recovery and trigger episodic volatility. This makes diversification especially important to add resilience.

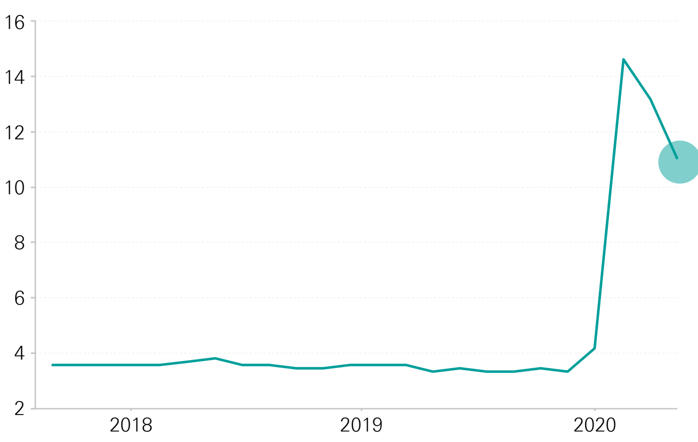
We explore each of these themes in more detail in the following pages.

Theme 1

Brace for an unsettled but hopeful recovery

US unemployment fell in May and June

This has not, however, offset market uncertainty



Source: Refinitiv Datastream, 02 Jul 2020.
Investment involves risks. Past performance is not indicative of future performance.
For illustrative purpose only.

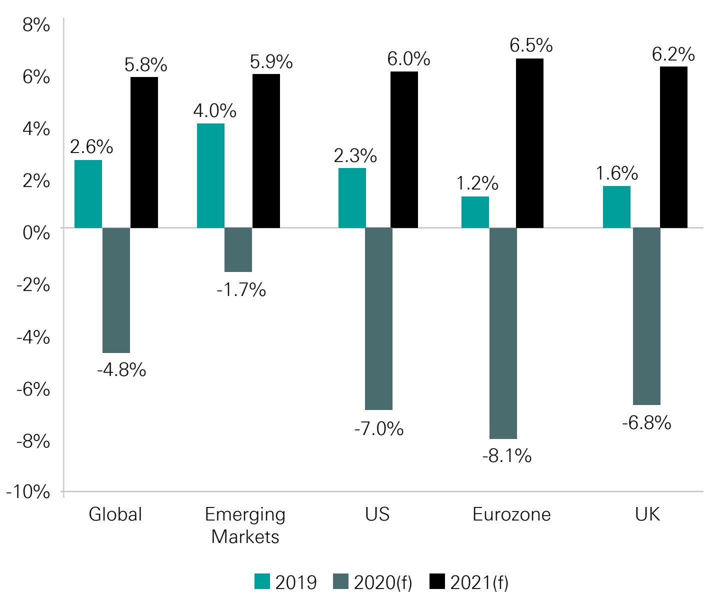
A journey beset with uncertainties

Despite positive early indicators as economies begin to reopen (see the chart on the left), the speed of the recovery will depend on uncertainty around the continued spread of the virus and the availability of a treatment or vaccine.

While social distancing, travel restrictions and other necessary measures remain in place, recovery may take still longer than expected, with significant economic and financial consequences.

Latest GDP forecast

Expect a contraction in 4.8% global GDP growth this year



Source: HSBC Global Research, Apr 2020.

Downgrades in 2020; more hopeful for 2021

We expect global GDP to fall by 4.8% for the year as a whole – more than double the 2.2% drop seen in 2009 after the global financial crisis. Uncertainty is toxic to the economy. US GDP fell by 5% in Q1 this year, with a steeper decline expected in Q2. Record unemployment is likely to have a lasting impact on the economy, with many businesses already struggling.

Looking ahead, we are hopeful of a recovery and expect a rebound towards year-end as economies start to reopen, followed by 5.9% growth in 2021.

2

Theme 2

Invest into the economic downturn

Stock markets have rallied strongly since March

The US stock market is almost back to pre-crisis levels

Source: Refinitiv Datastream, 30 Jun 2020. Index used: S&P 500 index.
Investment involves risks. Past performance is not indicative of future performance.
For illustrative purpose only.

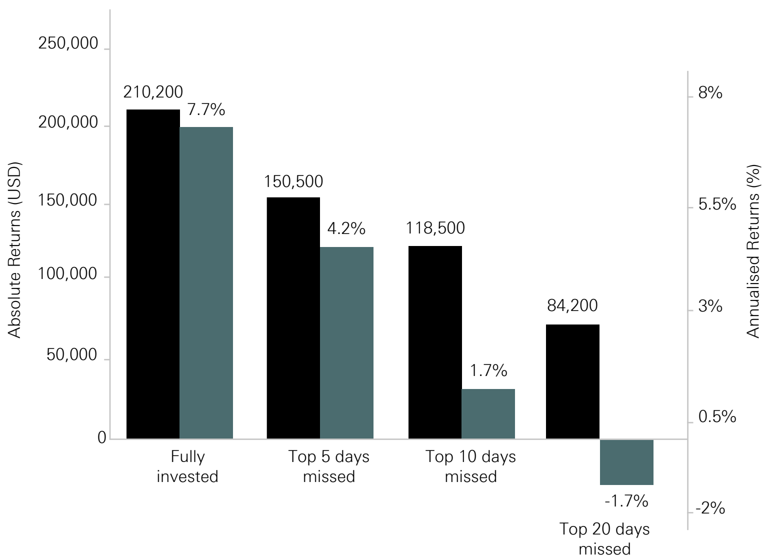
Equities have rallied since March

Stock markets have rebounded, thanks to an improvement in market sentiment that belied the unsettling economic fundamentals. Leading businesses in pivotal sectors like technology have driven the market rebound.

Still, given an uncertain recovery path ahead, investors should be cautious and maintain a neutral allocation to risky assets, while remaining ready to take advantage of select opportunities. We hold a neutral view on equities and corporate bonds for the short term.

How "timing the market" could harm your returns

Returns from USD100,000 invested from 2004 till 2014



Source: HSBC Global Asset Management. Index used: MSCI Daily Total Return Gross World Index.
Investment involves risks. Past performance is not indicative of future performance.
For illustrative purpose only.

Staying invested can yield rewards

Historically, post-recession recoveries in financial markets have tended to be powerful. In 2009, two months before economic data began to improve, global equities had already risen by around 40%*. Missing out on a bounce-back can be costly, so it's important to stay invested even through turbulent times.

Those who can stay invested in this crisis may be rewarded for the long term. Selectivity is key. Companies that can adapt and grow in a recession often prove to be attractive long-term investments.

*Source: Refinitiv Datastream. Index used: MSCI AC World Total Return Index. Past performance is not indicative of future performance.

Theme 3

Look beyond the crisis for opportunities

Data shows that China's business activity is steadily improving
China automobile sales volume

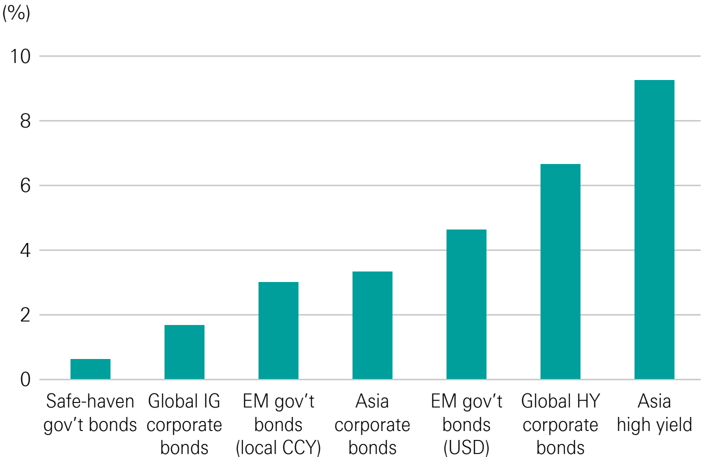
Source: Refinitiv Datastream/Fathom Consulting, 30 Jun 2020.
Investment involves risks. Past performance is not indicative of future performance.
For illustrative purpose only.

Asian equities offer long-term potential…

We remain positive on equities for the longer term, especially in Asia (excluding Japan). Markets like China and South Korea are leading the recovery, with recent statistics showing a clear "back-to-work" dynamic, as well as potential for more policy support.

Certain growth stocks, particularly in the technology sector, may benefit from changing consumer behaviours such as the increased demand for digital services due to the pandemic, which has accentuated existing trends for remote working and content streaming.

High-yield bonds are attractive
Asia junk bonds are offering attractive yields



Source: Refinitiv Datastream/Fathom Consulting, 30 Jun 2020.
Investment involves risks. Past performance is not indicative of future performance.
For illustrative purpose only.

…as does Asia fixed income

In general, we favour investing in assets from regions with solid demographic trends offering significant long-term opportunities. For example, Asia has a growing affluent society that will consume more and provide solid investment opportunities for years to come. Generally speaking, Asia also benefits from having more ammunition to stimulate economic growth compared to some Western counterparts.

We've upgraded investment grade and high yield bonds where spreads have become attractive. These investments are also well supported by recent commitments from some central banks to purchase these assets as part of a broader programme to combat the economic downturn.

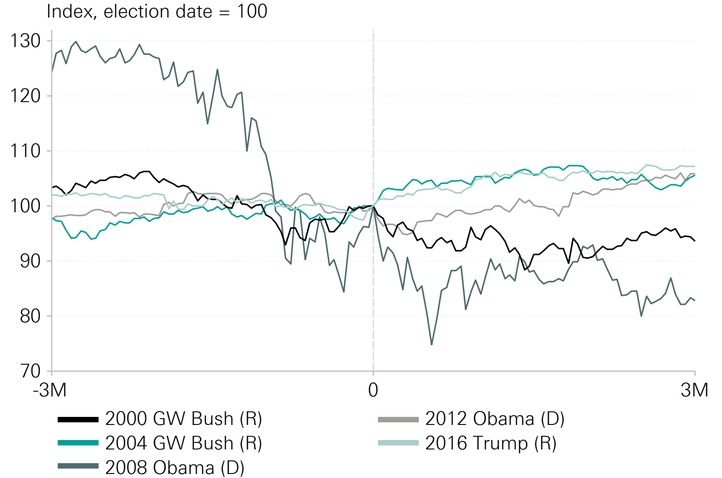
4

Theme 4

Guard against geopolitical risks

Geopolitical issues can cause episodic volatility

US equity performance before and after presidential elections



Source: Refinitiv Datastream/Fathom Consulting, 30 Jun 2020. R – the Republican Party, D – the Democratic Party.

Investment involves risks. Past performance is not indicative of future performance. For illustrative purpose only.

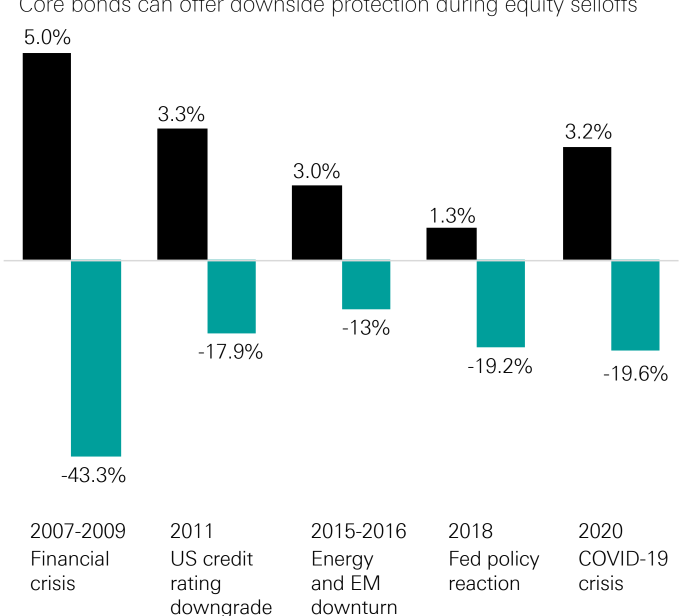
Potential threats are looming

COVID-19 has changed the geopolitical backdrop considerably. The rising China-US tensions, the upcoming US elections, along with key milestones for Brexit, could also weigh on market sentiment and trigger episodic volatility.

The US presidential election can have a major impact on policy, laws and foreign relations, moving market sentiment. For long-term investors, the key thing is to stay invested and diversify holdings.

Bond and equity performance during recent crises

Core bonds can offer downside protection during equity selloffs



Source: Refinitiv Datastream, data as of 30 Jun 2020. Core bonds: Bloomberg Barclays Agg bond index. Financial crisis: 10/10/2007 – 09/03/2009; US credit rating downgrade: 25/07/2011-03/10/2011; Energy and EM downturn: 21/07/2015-11/02/2016; Fed policy reaction: 03/10/2018-24/12/2018; COVID-19 crisis: 01/01/2020-31/03/2020.

Investment involves risks. Past performance is not indicative of future performance. For illustrative purpose only.

"High quality" bonds could be a useful diversifier

Although we don't strongly favour "safe haven" government bonds right now, we acknowledge that a mix of high quality government and investment grade bonds plays a crucial role in portfolio diversification. In particular, we have upgraded investment grade corporate bonds for the long-term because of their comparatively more attractive yields and relative stability.

It's vital to plan for volatility and insulate your portfolio against ongoing political risk. A diversified, multi-asset portfolio is a great way of doing this.

Investment Views

Tactical view (1-3 months): a relatively short-term view on asset classes. Tactical asset allocation is an active management strategy that deviates from the long-term strategic asset allocation in order to capitalize on economic or market conditions that may offer near-term opportunities.

Strategic asset allocation view (> 12 months): a relatively long-term view on asset classes. Strategic asset allocation is a practice of maintaining a mix of asset classes which should meet an investor's risk and return objectives over a long-term horizon and is not intended to take advantage of short-term market opportunities.

Government bonds

Developed Markets

Strategic view

Prospective returns look very low, and are likely to stay so in the current low-interest environment.

Government bonds

Emerging Market (EM), local currency

Tactical view

Despite attractive valuations, many EM economies outside of Asia have limited capacity to manage this health and economic crisis. A recovery in EM currencies is also unlikely in the near term.

Strategic view

Valuations are attractive after the selloff driven by COVID-19.

Global equities

Tactical view

Market volatility remains high, and there is elevated uncertainty over the economic outlook.

Strategic view

Extremely low government bond yields have made equities more attractive relatively.

Source: HSBC Global Asset Management, as of 1 Jul 2020.

Note: views are based on regional HSBC Global Asset Management Asset Allocation meetings held throughout June 2020, HSBC Global Asset Management's long- term expected return forecasts which were generated as at 31 May 2020, our portfolio optimisation process and actual portfolio positions. These views are not to be taken as an investment advice or recommendation to buy or sell investments or guarantee of returns, and are subject to change without prior notice. Please refer to the latest Investment Monthly or your relationship manager for more long-term asset class views.

▲ "Overweight" implies that, within the context of a well-diversified, typically multi-asset portfolio, and relative to relevant internal or external benchmarks, HSBC Global Asset Management has (or would have) a positive tilt towards the asset class.

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▶ "Neutral" implies that, within the context of a well-diversified, typically multi-asset portfolio, and relative to relevant internal or external benchmarks, HSBC Global Asset Management has (or would have) neither a particularly negative nor a positive tilt towards the asset class.

Corporate bonds

Global Investment Grade

Tactical view

Credit downgrades and defaults could pick up amid the uncertain growth outlook.

Strategic view

We're upgrading to Overweight as major central banks initiate large bond buying programmes (includes IG bonds).

Corporate bonds

Global High Yield

Tactical view

We advocate a defensive position towards this asset class, with an emphasis on higher quality issuers.

Strategic view

Valuations look attractive, especially for higher quality Asia credits.

Alternatives

Strategic view

Gold is no longer cheap in our view, so we retain our neutral position. But prospective returns look attractive on listed property markets and we believe the market has over-discounted the negative COVID-19 impact.

Regional equity views (>12 months)

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United States

Policymakers are supportive while big tech companies and other growth stocks may lead the rally further in US equities.

Eurozone

We downgrade to Neutral amid ongoing challenges: an uncoordinated fiscal support, a weak pre-crisis economic performance, the risk of a hard Brexit and pressure from member states to maintain low dividends.

Japan

Japan's economic growth was weak prior to COVID-19 and will likely be hit further by reducing external demand.

Emerging Markets (EM)

We prefer EM Asia markets which can benefit from China's growth recovery and further policy action.

Source: HSBC Global Asset Management, as of 1 Jul 2020.

Note: views are based on regional HSBC Global Asset Management Asset Allocation meetings held throughout June 2020, HSBC Global Asset Management's long- term expected return forecasts which were generated as at 31 May 2020, our portfolio optimisation process and actual portfolio positions. These views are not to be taken as an investment advice or recommendation to buy or sell investments or guarantee of returns, and are subject to change without prior notice. Please refer to the latest Investment Monthly or your relationship manager for more long-term asset class views.

United Kingdom

Policymakers are taking significant measures to support businesses and employment, but Brexit remains a key risk.

Central & Eastern Europe and Latin America

A limited ability to manage the crisis, along with low commodity prices and investor outflows, are putting these economies in a vulnerable position.

Asia (excluding Japan)

We see positive signs of economic recovery, while the macroeconomic structural characteristics are better than in other EM regions.

HSBC Perspective

Expect lower returns in the new normal

At a glance

- Ultra-low interest rates are likely to be a defining feature of the global economy for the next few years, as governments seek to bolster the economy.
- Low interest rates may result in lower expected returns on investments for the long term.
- Investors need to stay realistic about their investment return expectations. Regular checks on your portfolio are vital to stay on track to meet your goals.

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In dealing with COVID-19, governments have acted decisively to support the economy and keep financial markets functioning. Interest rates around the world have been cut, causing bond yields to fall significantly and, in some cases, close to zero. Central banks are buying government and corporate bonds, a process known as quantitative easing, and this is further encouraging bond yields to remain low.

The consequence is that yields on perceived "safe-haven" assets like cash and government bonds are at record lows, with knock-on implications for other investments.

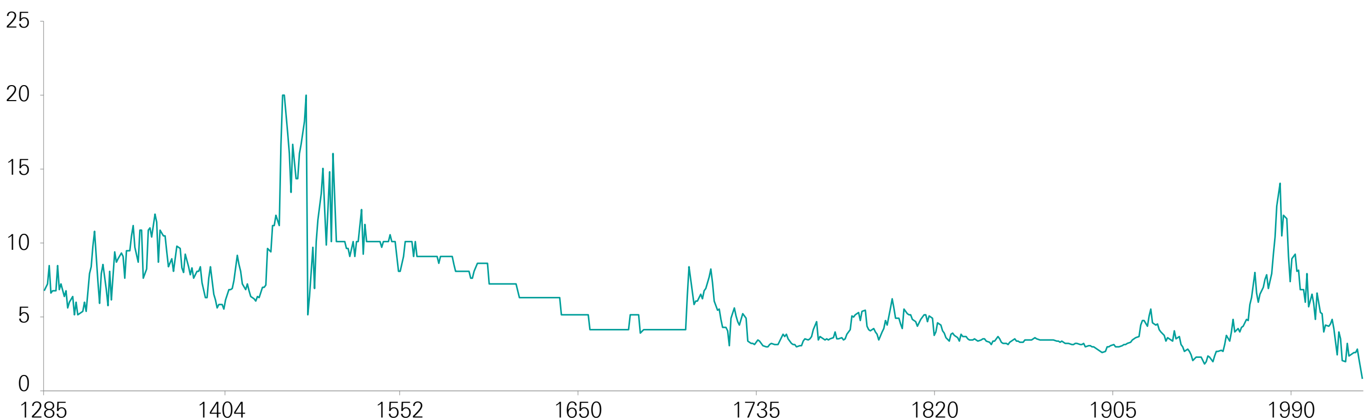
An important metric used by financial professionals is the "risk-free rate", which refers to prospective returns on investments that carry little or no risk. According to financial theory, there's a link between yields on historically government bonds (US Treasuries, German Bunds or UK Gilts) and potential returns on other, riskier types of investment like the stock market. Hence, the lower the "risk-free rate", the lower the likely returns on equities and other assets.

What are the implications of "lower forever" interest rates?

Among the trends "accelerated" by COVID-19, the move towards "lower forever" interest rates (see Figure 1) is key. As we emerge from the economic slump, the Fed has pledged to keep US policy rates near zero until 2022, while the ECB also anticipates ultra-low rates to help reflate the economy.

While a "swoosh-shaped" recovery looks likely, the path will be long. Even if growth surges in the second half of 2020, unemployment will take years to return to pre-crisis levels. This is before we delve into the downside risks inherent in these assumptions.

Figure 1 – Long term interest rates



Source: Bloomberg, HSBC Global Asset Management, data as of 3 Jun 2020.
Index used: Global Financial Data Long-Term Government Bond Index.

Our baseline medium-term scenario is for continued low interest rates, maintained by structural headwinds (like the abundance of global savings relative to investments). In larger economies, interest rates are expected to remain below inflation for the next decade.

Other factors at play

These days of course, there's more to economic policy than interest rates, as policymakers rediscover fiscal stimulus and use various targeted measures to support macro recovery.

Investors should anticipate returns on traditionally "safe" assets, like government bonds, to stay below inflation, at least in the medium term. For higher returns, we need to look at riskier asset classes (see Figure 2).

Another challenge is that financial markets have rallied since March, making their valuations more expensive. This means the long-term expected returns available today may be lower compared to the market lows in March. Investing at higher valuations potentially means lower returns.

Investors need to have realistic expectations. Our calculations now suggest lower annual returns of around 0.7% for global bonds, or 5.9% for global equities, for the foreseeable future. These lower returns across markets are inextricably linked to the prevailing low interest rate regime.

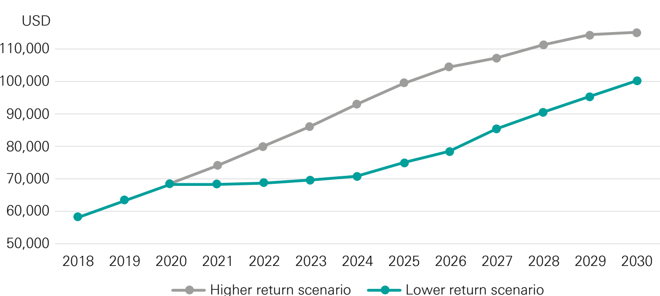
What do lower returns mean for one's financial plan?

The prospect of lower returns has a major impact on an individual's financial planning.

Suppose you wanted to save for your child's college education, expecting fairly consistent growth until she reaches graduate school in ten years. Using assumptions similar to those described above, your financial advisor would calculate how much to set aside to reach this goal, e.g. USD100,000.

In a low return scenario (green line), it takes 10 years for you to realise your financial planning goal of USD100,000*; but in a high return scenario (grey line), you can meet the same goal in a much shorter period. (see Figure 3)

Figure 3 – Education savings with lower returns



Source: HSBC. Higher return scenario: expect 5.9% annual return; lower return scenario: expect 0.7% annual return. For illustrative purpose only.

*Calculations are based on a balanced USD investor using HSBC's propriety forecasting methodology.

The difference illustrated here is startling and the calculation plays out across different markets and client types, with real-life consequences. Something has to change, for example to add more funds at the outset or make regular supplementary contributions.

Whatever your financial goals, as time goes by, you need to keep checking and revising your strategy to incorporate the most up-to-date assumptions. These tend to change over time, along with your life situation and attitude to risk. A trained financial professional can help you to stay on course.

Figure 2 – The pecking order of asset classes (market implied risk premia)

Source: HSBC Global Asset Management, as of Jun 2020.

At a glance

After weeks of extreme volatility, equities have rallied. But COVID-19 looks set to transform countless aspects of our daily life.

The pandemic has accentuated several long-term structural trends, from the rise of remote working to assorted geopolitical tensions.

Key sectors have flourished during the crisis, most notably technology and healthcare, although not all players in these industries have emerged unscathed.

External Perspective

A glimpse of the future as markets stabilise

Ben Powell
Managing Director,
Chief Investment Strategist, APAC,
BlackRock Investment Institute

The year 2020 has thus far been marked by extreme volatility (see Figure 1), as investors digested the implications of COVID-19 and markets reacted to the closing of large sections of the economy. Of the S&P 500's "ten largest daily moves" in the past four decades, four of these moves occurred in March this year (see Figure 2).

In recent weeks, equities have rallied again. Why? Markets seem to be adopting a more constructive view of two related phenomena.

Firstly, containment measures are being eased in many developed countries. While this controlled opening is not without risk, as long as infection rates appear to be falling, data is likely to turn sharply positive (take the US jobs data in May and June, for example).

Secondly, global policymakers have embarked on a "policy revolution" by injecting unprecedented fiscal and monetary stimulus into the economy. This is feeding through to help value stocks rally, however we don't believe that this a permanent change.

The pandemic has also accelerated several long-term structural trends. E-commerce and the role of sustainability for corporates have gained in profile and importance. Weak points have emerged in the global supply chain. Geopolitics are increasingly fragmented. As economic activity resumes, investors are faced with new risks, and new opportunities.

Figure 1 – Market volatility remains higher than before COVID-19
The CBOE VIX Index

Source: Refinitiv Datastream, as of 30 Jun 2020

Deeper dive into investment opportunities and risks

Many of the biggest changes could be in technology. Home working, a "new normal" of life in lockdown, has helped to accentuate our reliance on two key areas of technology.

The first of these is consumer-facing technology. Streamed entertainment, telemedicine, virtual education, and video communication have all seen an explosion in demand.

The second area is infrastructure technology, which empowers this consumer-oriented tech to work. For example, cloud computing is expected to see increased spend as it creates knock-on opportunities for "next generation" encryption and cyber security, which help consumer tech operate at the required level.

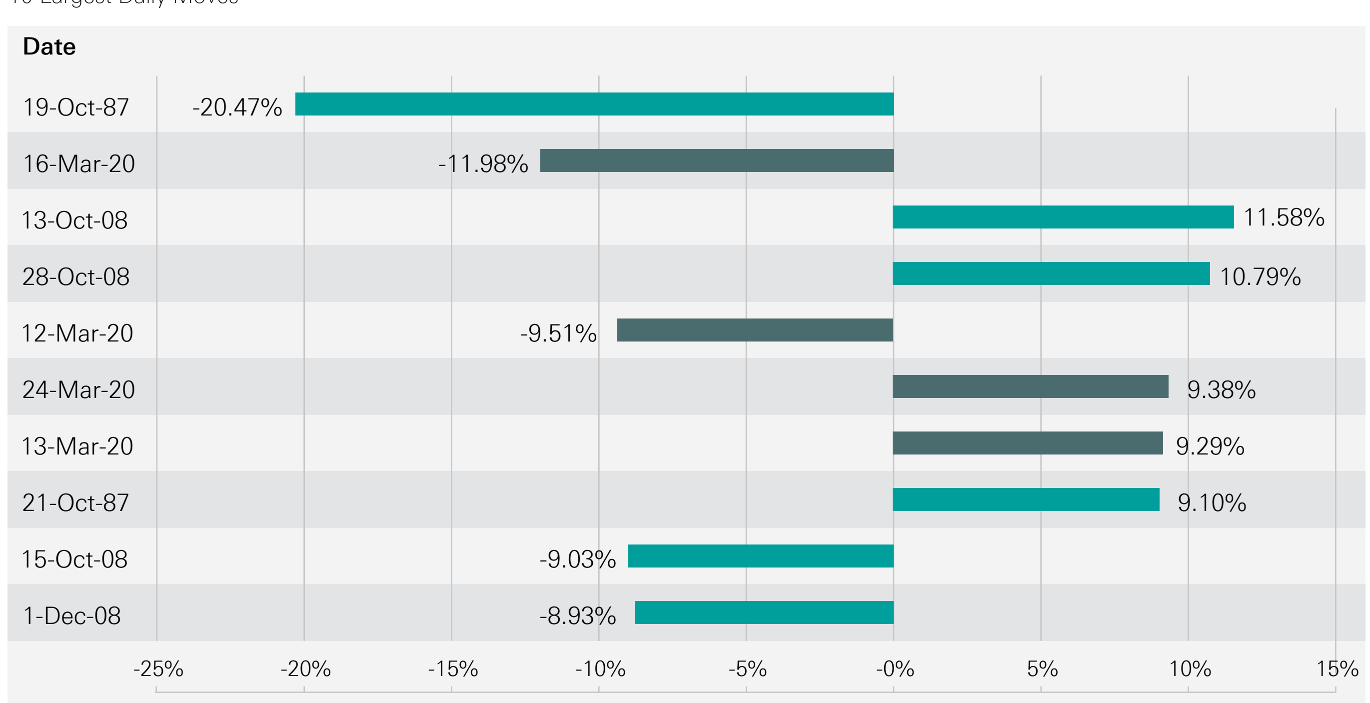
On the flipside, industries that have been impacted negatively may need to adapt their business models or await an upturn in activity. These include digital payments, which have suffered alongside retailers, and online travel agencies.

The pandemic has also brought spotlight on healthcare, and focused investors' attention on healthcare providers. Predictably, demand for drugs has increased, as well as for COVID-related products like ventilators and test kits. Other sub-sectors, meanwhile, are beginning long-term structural change. Online healthcare is benefiting from social distancing rules, as are home and community healthcare.

On the other hand, hospitals have suffered a negative impact, with elective procedures and clinical trials being delayed. Companies that produce equipment for elective procedures have therefore also struggled, although we believe demand will return after the pandemic.

So far, we've only caught fleeting glimpses of our post-COVID future. But the evidence is growing clearer by the day: while much of the world we knew before the virus will remain the same, a great deal is set to change. For investors, this means increased risks and opportunities, each of which they will need to assess objectively on its own merits. Selective, informed, and diversified asset allocation will be more vital than ever.

Figure 2 – S&P 500 Index
10 Largest Daily Moves



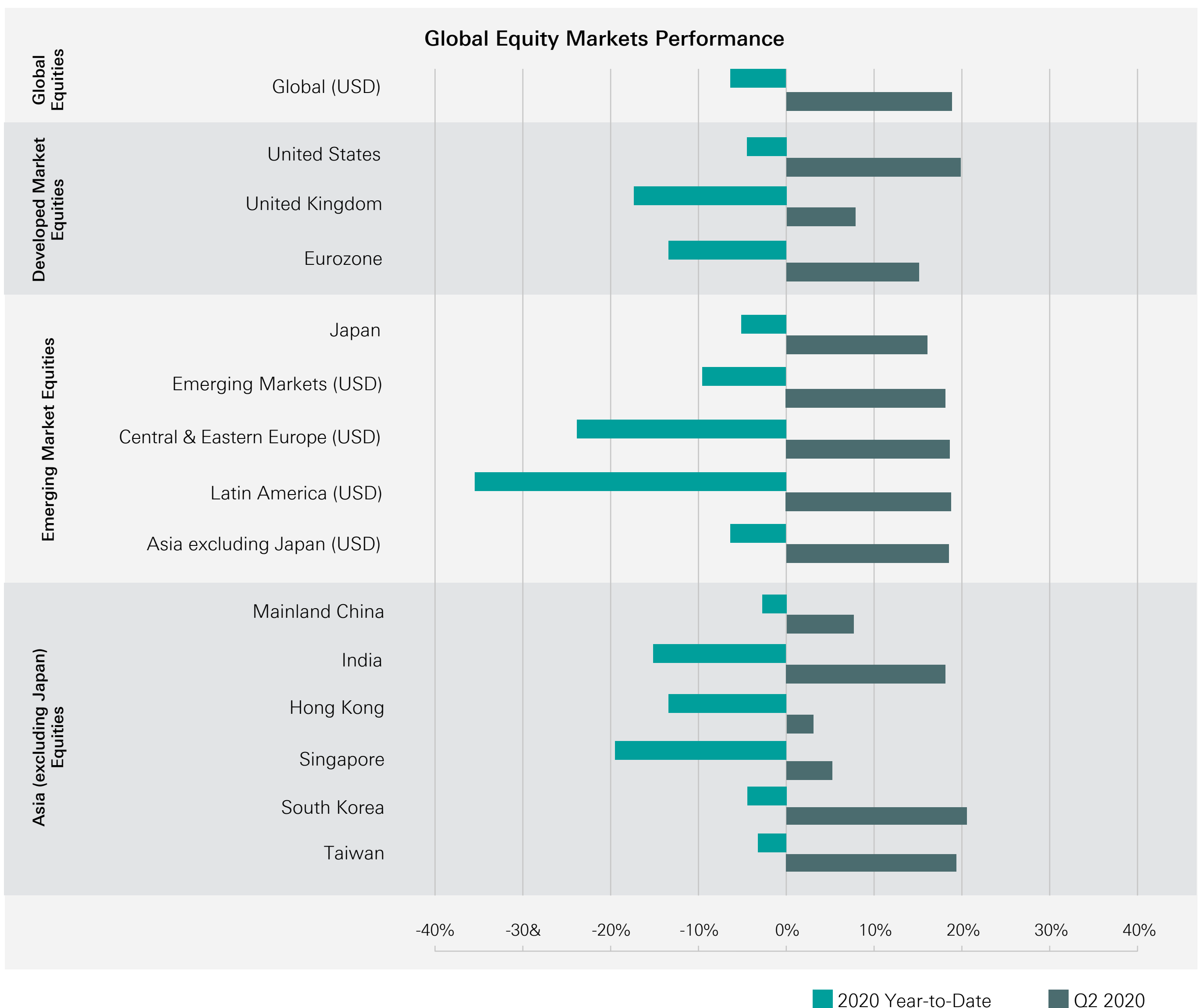
Daily Return   Daily Return 2020

Source: Bloomberg, June 2020
Investment involves risks. Past performance is not indicative of future performance. For illustrative purpose only.

Markets Review

Equities

Equity markets have performed well since the lows seen in March, with US equities recovering most of their COVID-19 losses for the year to date. In emerging markets, China has shown signs of recovery and its equity markets are among the top performers globally this year. Other emerging markets like Latin America, where COVID-19 is yet to peak, have the worst performance.

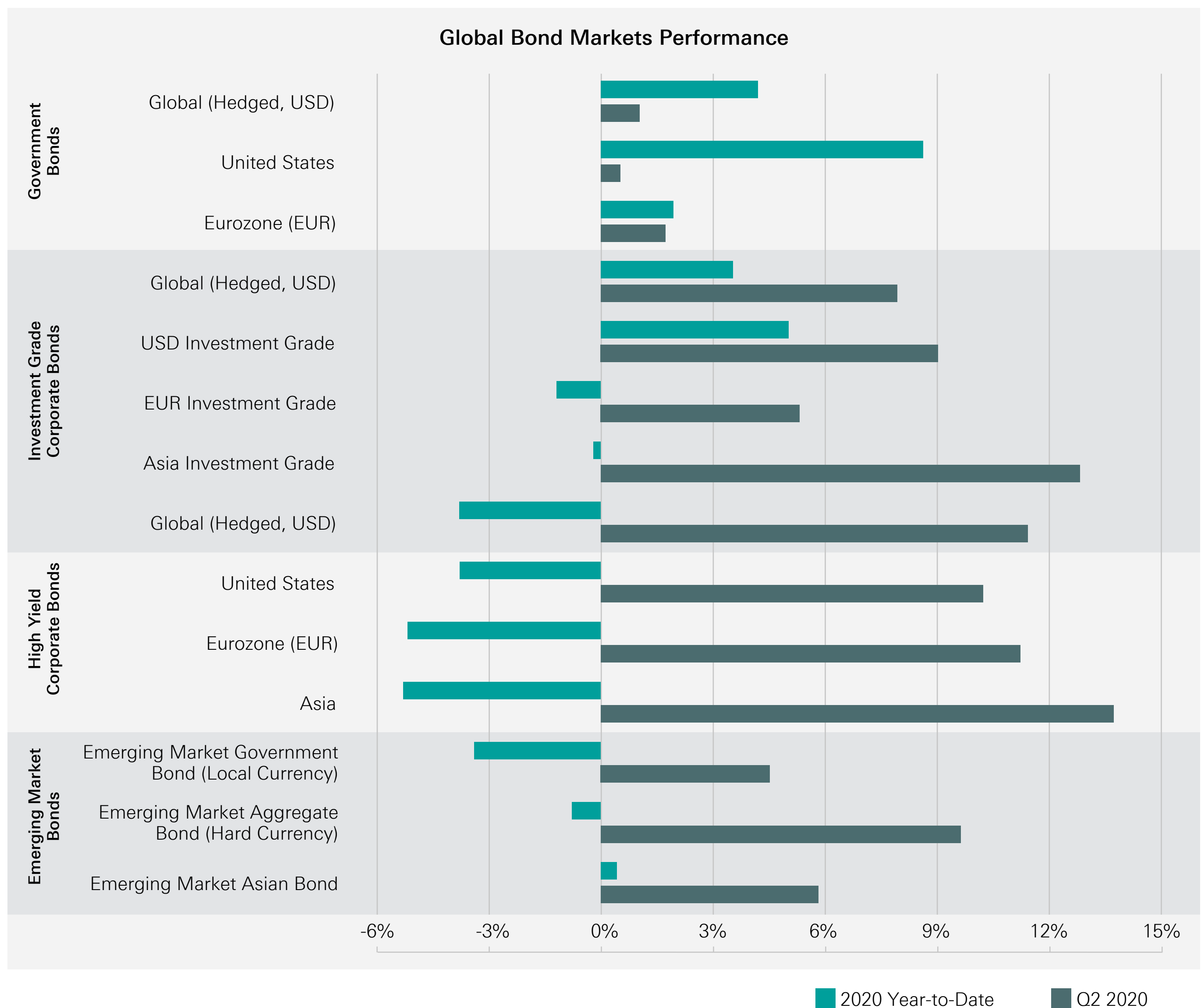


Source: Datastream Refinitiv, 30 Jun 2020.

Note: total returns of asset classes are shown in local currencies, unless otherwise stated. Equities performance is represented by different Indices – Global Equities: MSCI ACWI Net Total Return Index (USD). US Equities: S&P 500 Index (USD). UK Equities: FTSE 100 Index (GBP). Eurozone Equities: EURO STOXX 50 (EUR). Japan Equities: Nikkei 225 Index (JPY). Emerging Market Equities: MSCI Emerging Net Total Return Index (USD). Central & Eastern Europe Equities: MSCI Emerging Markets Eastern Europe Net Total Return Index (USD). Latin America Equities: MSCI Emerging Latin America Net Total Return Index (USD). Asia (excluding Japan) Equities: MSCI AC Asia Pacific ex Japan Net Total Return Index (USD). Mainland China Equities: Shanghai Stock Exchange Composite Index (CNY). India equities: S&P BSE SENSEX Index (INR). Hong Kong Equities: Hang Seng Index (HKD). Singapore Equities: FTSE Straits Times Index (SGD). South Korea Equities: Korea Stock Exchange KOSPI Index (KRW). Taiwan Equities: Taiwan Stock Exchange Weighted Index (TWD).

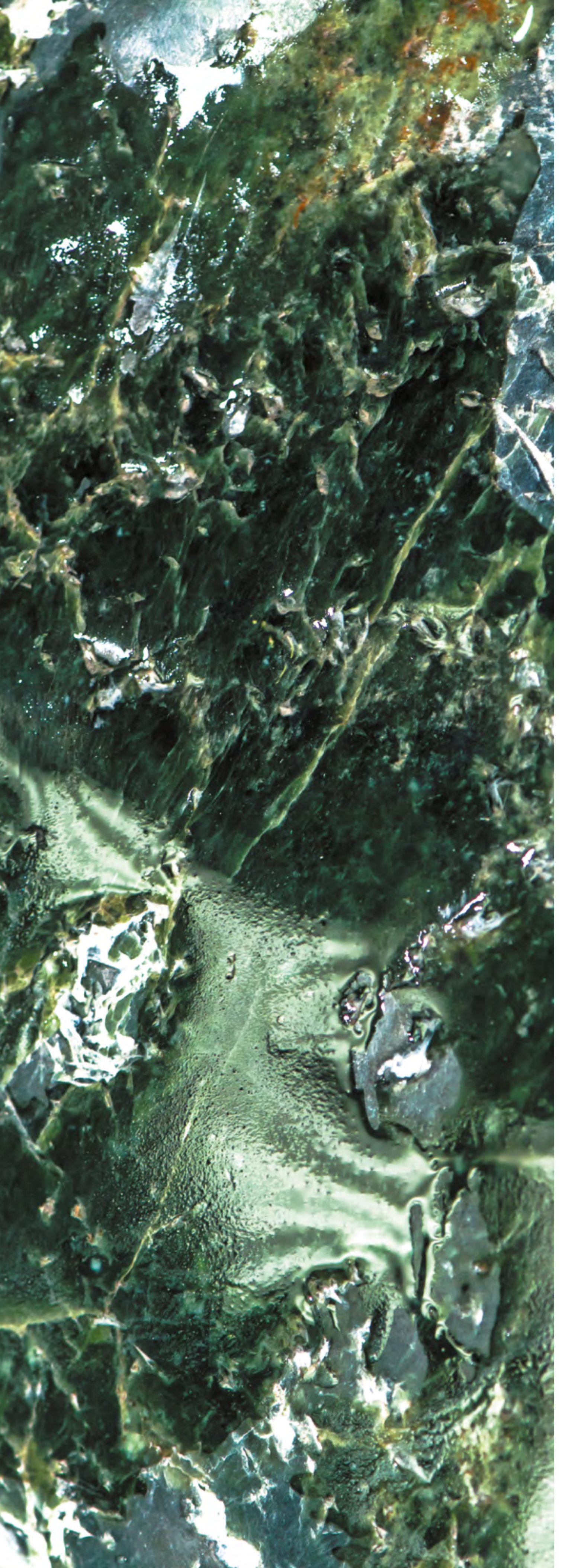
Bonds

Global government bonds have been among the top performers so far, driven by the "risk-off" sentiment that has dominated since the outbreak began. Corporate bonds have rebounded after the March sell-off. Year-to-date investment grade corporate bonds have been outperforming junk bonds (e.g. high yield bonds), as major central banks engage in large bond-buying programmes.



Source: Datastream Refinitiv, 30 Jun 2020.

Note: total returns of asset classes are shown in US dollar (USD), unless otherwise stated. Bonds performance is represented by different Indices – Government Bonds: Global Government Bond (Hedged, USD): Bloomberg Barclays Global Aggregate Treasuries Total Return Index (Hedged, USD); US Government Bond: Bloomberg Barclays US Government Total Return Index; Long-dated Treasury Bond: Bloomberg Barclays Long US Treasury Total Return Index; Short-dated Treasury Bond: Bloomberg Barclays Short Treasury Total Return Index; Eurozone Government Bond: S&P Eurozone Sovereign Bond Total Return Index (EUR); Investment Grade Corporate Bonds: Global Investment Grade Corporate Bond (Hedged, USD): Bloomberg Barclays Global Aggregate Corporate Total Return Index (Hedged, USD); USD Investment Grade Corporate Bond: Bloomberg Barclays US Corporate Total Return Index; EUR Investment Grade Corporate Bond: Bloomberg Barclays Euro Aggregate Corporate Total Return Index (EUR); Asian Investment Grade Corporate Bond: Markit iBoxx USD Asia ex-Japan Corporates Investment Grade Total Return Index. High Yield Corporate Bonds: Global High Yield Corporate Bond (Hedged, USD): Bloomberg Barclays Global High Yield Corporate Total Return Index (Hedged, USD); USD High Yield Corporate Bond: Bloomberg Barclays US Corporate High Yield Total Return Index; EUR High Yield Corporate Bond: Bloomberg Barclays Pan-European High Yield Total Return Index (EUR); Asian High Yield Corporate Bond: Markit iBoxx USD Asia excluding Japan High Yield Total Return Index. Emerging Market Bonds: Emerging Market Government Bond (Local Currency): Bloomberg Barclays Emerging Market Local Currency Government Total Return Index; Emerging Market Aggregate Bond (Hard Currency): Bloomberg Barclays Emerging Market Hard Currency Aggregate Total Return Index; Emerging Market Asian Bond: Markit iBoxx USD Asia excluding Japan Total Return Index.



Glossary

Alternative investments: a broad term referring to investments other than traditional cash and bonds and may include real estate, hedge funds, private equities and commodities investments, among other things. Some of these investments may offer diversification benefits within a portfolio.

Asset class: a group of securities that show similar characteristics, behave similarly in the marketplace, and are subject to the same laws and regulations. The main asset classes are equities, fixed income, and commodities.

Asset allocation: the allocation of funds held on behalf of an investor to various categories of assets such as equities, bonds and others, based on their investment objectives.

Company fundamentals: the intrinsic value of a company as analysed by looking at its revenue, expenses, assets, liabilities and other financial aspects.

Diversification: often referred to as "not putting all your eggs in one basket", diversification means to invest in a variety of different markets, products and securities to spread the risk of loss.

Duration: duration is a measure of the sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates. The longer a fund's average duration, the more sensitive the portfolio is to shifts in interest rates. Duration is expressed as a number of years.

Fiscal policy: the use of government spending and tax policies to influence macroeconomic conditions such as aggregate demand, employment, inflation and economic growth.

Investment strategy: the internal guidelines that a fund follows in investing the money received from its investors.

Inflation: the rise in the general price levels of goods and services in an economy over a period of time.

Maturity: the date when the issuer of a bond or debt obligation repays the principal (the original amount invested).

Monetary policy: process by which the authorities of a country control the supply of money. This often involves targeting a rate of interest for the purpose of promoting economic growth and stability.

Quantitative easing (QE): also known as large-scale asset purchases, is a monetary policy whereby a central bank buys government securities or other financial assets from the market in order to increase the money supply and encourage lending and investment.

Volatility: a term for the fluctuation in price of financial instruments over time.

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Xian is responsible for developing thought leadership and communicating HSBC investment views for our retail banking and wealth management clients. In particular, he specialises in delivering actionable insights on the world's fast-moving financial markets. Previously, Xian was a multi-asset class fund manager at various private banks and asset managers, including HSBC Global Asset Management.

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Mark has over 20 years' experience in the Wealth Management sector, having begun his career in the insurance industry where he provided planning to private clients across the globe. He is a graduate of the CASS Business School and a Fellow of the Chartered Institute for Securities and Investments. Before joining HSBC, Mark held senior roles at UBS and Barclays.

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