

Think Future **2022**

Your guide to the global
investment landscape



HSBC

| Opening up a world of opportunity

Capturing growth with focus on quality

The beginning of 2022 marks two full years¹ since the start of the pandemic, and what an eventful time it has been. We've had an economic recession and subsequent recovery, during which the stock market proved its resilience, rising to new highs. Daily life has changed profoundly, with digital technology playing a deeper role in how we work, consume and interact.

Sustainable investing, meanwhile, has entered the mainstream, driving progress toward the global net zero objective.

Covid-19 continues to weigh on the investment landscape. The new "Omicron" variant has resulted in control measures being re-introduced in some countries. It's a timely reminder that we are not yet out of the woods and that new waves and variants of the virus remain a risk.

So what does 2022 have in store? On the macroeconomic front we expect growth to moderate, with the global economy forecast to expand at 4.0% in 2022, compared to 5.7% in 2021. This isn't a bad thing – just a reflection of the fact that our "quick and easy" recovery from the Covid-19 recession is largely over (especially in the developed world) and that the global economy has moved into a new phase of growth.

We believe that stocks will continue to rise, fuelled by earnings growth rather than the multifaceted expansion that delivered outsized returns in 2021. As with economic growth, we expect the pace of equity returns to moderate while remaining positive. Hence, stocks are a more attractive prospect than bonds right now.

So how should investors structure their portfolios in 2022?

The outlook is ripe with opportunity, but extreme care must be taken to manage risk, especially with Covid-19 continuing to weigh.

High inflation has been stubbornly persistent, and while we expect that to ease this year, the pressure it places on central banks makes them vulnerable to mis-steps.

Our base case assumes key players like the US Federal Reserve and European Central Bank will keep rates low to sustain the economy, but it's worth preparing for volatility in case rates rise sooner than anticipated.

This means staying invested in stocks, but without overextending one's exposure to risky assets, and while focusing on large, high-quality companies that pay attractive dividends.

Asia continues to be our top geographic pick, thanks to favourable demographics and opportunities concentrated in the north and southeast parts. Right now, investors can invest in the region at a lower price compared to the start of the year. As economic reopening gathers pace, Asia is also poised for further growth. In terms of structural themes, sustainable investing and digitisation should play a critical part in most portfolios.

All this and more is explored in depth in the following pages. We hope you enjoy reading it, and wish you a successful start to your 2022 investment journey.



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¹ According to the World Health Organisation, the pandemic was first reported at the end of 2019.

2022 Investment landscape

Scenarios we are confident about and have prepared for:

Scenarios		Actions	
	The economy continues to grow but at a slower pace; earnings growth slows	Stay invested in equities, but with reduced exposure to cyclical sectors	
	Inflation persists making markets nervous; central banks tighten policy gradually	Diversify portfolios to mitigate unexpected bouts of volatility	
	Asia presents opportunities and structural growth in the long-term	Invest in Asia, focusing on economies that benefit from structural growth policies	
	Sustainability becomes even more important for individuals, companies and governments	Include ESG-centric investments for long-term capital growth and risk management	
	Innovation is enabling businesses and governments to prepare for the future	Consider exposure to technology sub-themes such as automation, artificial intelligence, biotechnology and telehealth	

Scenarios we are uncertain about but have also prepared for:

Scenarios		Actions	
	The exact timing of when inflation will fall to more “normal” levels	Manage risk by focusing on large cap, high-quality stocks preferably with dividends	
	Impact of new waves/variants of Covid-19 on existing labour market shortages and supply chain issues	Favour consumer cyclicals over industrials and materials sectors	
	Covid-19, geopolitical risks and elections	Diversify to keep portfolios resilient	

Key data to watch

Economic growth is expected to moderate in 2022, as part of the next phase of recovery

	GDP		Inflation	
	2021f	2022f	2021f	2022f
World	5.7	4.0	3.7	3.6
US	5.7	3.8	4.7	4.7
Eurozone	5.0	4.0	2.5	2.6
UK	7.1	5.1	2.5	4.1
Japan	2.2	1.8	-0.2	0.3
Mainland China	8.3	5.6	1.0	1.4

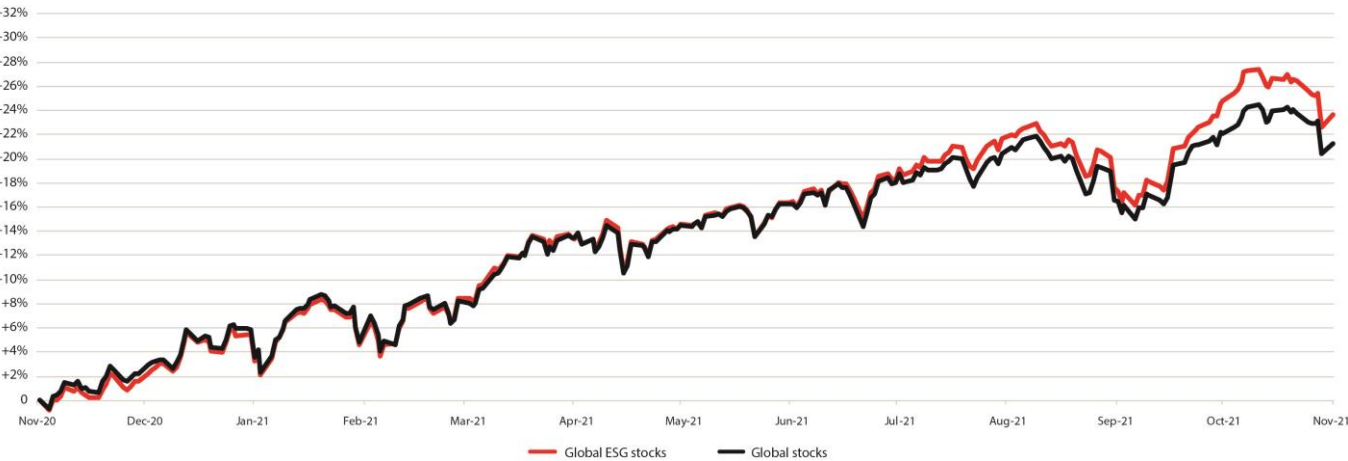
Source: HSBC Economics. *GDP aggregates use chain-weighted nominal USD and inflation is calculated using Nominal USD PPP weights, now chain-weighted from 2018.

US equities lead in performance, driven by strong corporate earnings



Source: Refinitiv Datastream, as at 26 November 2021. Rebased to 100.
Note: Asset class performance is represented by different indices – US Equities: S&P 500; Europe Equities (ex-UK): MSCI All Country Europe ex UK (USD); UK Equities: FTSE All-Share (USD); Asia Equities: MSCI All Country Asia ex Japan (USD)

Companies with robust ESG practices outperformed global stocks



Source: Refinitiv Datastream, as at 29 November 2021. Rebased to 100.
Note: Asset class performance is represented by different indices – Global Equities: MSCI World (USD); Global ESG stocks: MSCI ESG World Leaders (USD)

Global calendar

Key events – 1st half of 2022

Jan 26	▪ Federal Open Market Committee (FOMC) policy decision	Mar 17	▪ BOE policy decision
End Jan	▪ Italy presidential election	Mar 27	▪ Hong Kong Chief Executive election
Feb 3	▪ Bank of England (BoE) policy decision	Apr 10	▪ France presidential election
Feb 3	▪ European Central Bank (ECB) policy decision	Apr 14	▪ ECB policy decision
Feb 13	▪ Germany presidential election	May 4	▪ FOMC policy decision
Mar 9	▪ South Korea presidential election	May 5	▪ BOE policy decision
Mar 10	▪ ECB policy decision	Jun 9	▪ ECB policy decision
Mar 16	▪ FOMC policy decision	Jun 15	▪ FOMC policy decision
		Jun 16	▪ BOE policy decision

▪ Policy decision ▪ Political election



Investment themes for the first half of 2022

1. Stay invested, but manage risks carefully

The global economy is at the “mid-cycle” stage, with growth expected to continue at a more moderate pace. Persistent inflation concerns, high raw materials prices and supply chain disruptions are challenges. Our global GDP forecast for 2022 is 4.0%, compared to 5.7% in 2021.

Our base expectation is that central banks will keep interest rates low – although with inflation currently on the higher side, there’s increased pressure to raise them. While we expect inflation to subside in 2022, it could contribute to bouts of volatility, especially if combined with new waves and variants of Covid-19, as well as some imminent, geopolitically significant elections.

We therefore advocate a diversified, risk-managed portfolio focused on high-quality, large cap companies with generous dividend yields. The inclusion of high-quality bonds and ESG metrics can also enhance resilience.



Over the next 3-6 months, we’re Overweight on US, European and Asian equities, but Neutral on UK equities due to supply chain issues and upgraded inflation forecasts

2. Explore bright spots in Asia

Asia’s future is being reshaped by a new generation of tech and consumer leaders, coupled with structural factors that support growth. We like a broad range of sectors in the region, including consumer discretionary, technology, communications and financials. Asia’s savvy middle-income consumers also lagged in spending compared to those in the US and Europe, suggesting room for a resurgence in consumption in 2022.

We also see investments being tied to government actions. China’s 14th Five-Year Plan sets a blueprint for high quality, sustainable growth, heralding opportunities in multiple sectors from renewable energy to electric vehicles, as well as innovative technology. Taiwan and Singapore are also home to high-quality companies that benefit from government support, in areas like smart manufacturing, semiconductor chips, 5G, health technology and more. Indonesia’s raw materials industry also stands to benefit from the growing green industry – for example, through nickel for electric car batteries.



Over the next 3-6 months, we like these sectors within Asia:

- **Consumer discretionary** – a key driver of the recovery
- **Communications** – as businesses continue to digitise
- **Technology** – as the “new normal” generates further demand
- **Financials** – as the industry continues to benefit from an improved economic outlook

3. Invest into a greener future



The UN Climate Change Summit (COP26) tackled vital issues from deforestation to the phasing out of fossil fuels, while securing updated pledges from governments. Progress was also made on mitigation and adaptation strategies, sustainability disclosure standards and financing for developing countries. Although more is needed to put us on the path to 1.5°C, COP26 has turned environmental, social and governance factors into top priorities for governments, companies and investors.

The path to net zero relies on green innovation to generate long-term capital growth. Sectors like power generation, infrastructure, transport, construction, electric vehicles and industrials are likely to transform radically as decarbonisation accelerates.

Incorporating ESG metrics into your strategy can help to manage downside risks. Companies with robust ESG practices also tend to be more transparent, and maintain shareholder value more effectively.

Focus on investment themes around clean energy, sustainable infrastructure, electrical transportation, buildings efficiency and emissions reduction for industrials.

4. Dive into digital transformation



The pandemic has unlocked and reinforced the structural adoption of tech globally, creating investment opportunities in both developed and emerging economies.

Technology continues to be a structural winner as the world adjusts to a more convenient, digitally-empowered way of living that enables society to move forward even in uncertain times. Meanwhile, a flood of innovation in sectors like healthcare, online education, communications, e-commerce, entertainment and cybersecurity has opened up more possibilities for humanity.

Explore opportunities that will foster digital transformation in the long run, such as cloud technology, automation, 5G, healthcare and smart mobility.

Regional market outlook

▲ Asia (excluding Japan)



We remain positive on Asian investments as a whole for 2022, thanks to a persistently favourable growth outlook. Although Mainland Chinese equities have struggled in recent months, more attractive valuations provide cause for optimism. There remains, however, a degree of short-term uncertainty around the country's earnings outlook, due to higher raw materials prices, which explains our short-term Neutral positioning for Mainland Chinese equities. We are nonetheless watching for the right time to become more positive again.

In Southeast Asia, we like Singaporean equities, which continue to benefit from the global recovery. Indonesian equities stand to benefit from the growing green industry thanks to its raw materials industry.

Over the next 3-6 months, we like:

- The following sectors in Asia: consumer discretionary, technology, communications and financials
- Taiwanese, Singaporean and Indonesian equities
- Mainland Chinese local currency and Indonesian hard currency bonds

► Japan



Our stance on Japan remains Neutral due to a slower vaccine roll out, structurally weaker growth and limited policy options from the Bank of Japan. The export sector, meanwhile, is heavily reliant on manufacturing, which currently suffers from supply chain challenges and

higher raw materials costs. We're still Underweight on Japanese government bonds (JGBs) which we believe are overvalued.

Our Neutral stance on Japan as a whole remains unchanged, due to tepid growth expectations.

► Eurozone and UK



Our Overweight position on Eurozone stocks reflects our belief that the economic recovery still has some way to

go in the region. This should drive stocks higher, partly aided by continued loose policy from the European

Central Bank. Investment from the EU Next Generation fund should also help.

In contrast, we're now more prudent on the UK, downgrading UK equities to Neutral. The Bank of England has become more "hawkish" on monetary policy, while the UK government is planning to tighten fiscal policy. However, UK high yield corporate bonds have managed to outperform, capturing attention from pension funds and other institutional investors with attractive spreads and yield-to-maturity.

Over the next 3-6 months, we like:

- The following European & UK sectors in particular: consumer discretionary and financials
- European & UK high yield corporate bonds

▲ United States



The US equity market is our core "Overweight" area, thanks to its quality style bias and the US economy's general resilience – two factors that should serve investors well in 2022. We expect the Federal Reserve to keep interest rates low, supporting corporate earnings and driving stocks higher.

As US Treasuries are expected to generate lower yield (compared to other bond and equity opportunities), we

retain our Underweight position. However, these instruments still have a place in portfolios as a hedge against volatility. In fixed income, our preference is for Global High Yield (of which US bonds are a significant component) due to its positive earnings outlook for 2022.

Over the next 3-6 months, we like:

- US equities in general, particularly the following sectors: consumer discretionary, technology, communications and financials
- US high yield corporate bonds

▼ Central & Eastern Europe (CEE) and Latin America (LatAm)



We're still Negative on Emerging Markets (EMs) outside Asia, even though higher commodity prices have been working in their favour. We believe commodity prices will start to plateau, while slow vaccine rollouts, possible new waves of Covid-19 and limited policy scope continue to present challenges.

Our Underweight position on CEE and LatAm equities remains unchanged for the next 3-6 months. Political uncertainties, viral spread, slower vaccine rollouts and the region's uneven path to economic recovery are our primary concerns.

Notes:

Short-term view (3-6 months): a relatively short-term view on asset classes for tactical asset allocation.

For a full listing of HSBC's house views on asset classes and sectors, please refer our Investment Monthly issued at the beginning of each month.

▲ "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.

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