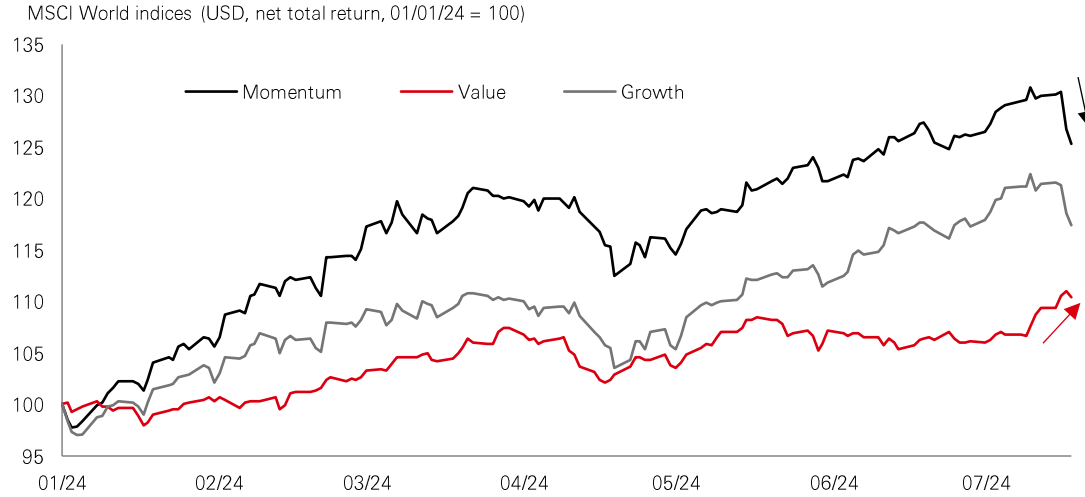




# Investment Weekly

22 July 2024

## Chart of the week – Momentum has fared well, does that change in H2?



US stocks have been big winners in 2024 – driven by two key themes. First, the supportive backdrop of resilient growth, falling inflation, and recovering corporate profits, which all point to an economic soft landing. Second, the exceptional outperformance of the so-called Magnificent Seven (Mag 7) technology mega-caps. From a factor perspective, it has meant that Momentum – the tendency for trends to persist – has outpaced Growth, which in turn has trounced Value. But can that continue in H2?

Data show the US economy is cooling. Renewed expectations of near-term rate cuts have spurred a shift in performance across factor styles, sectors, and stock sizes. Mag 7 prices have taken a hit, and high-flying Momentum and Growth factors have slipped. By contrast, previous laggards like Value, real estate, and small caps have seen upward moves.

Some analysis points to a less concentrated market performance in H2 amid a broadening out of global profits growth. As Q2 earnings season progresses, there is scope for tech profits to disappoint versus elevated expectations, with other sectors and factors potentially coming to the fore. Meanwhile, political, and geopolitical factors are likely to inject more volatility.

### Asian Equities →

Exploring the appeal of an Asian ‘magnificent seven’

### China Outlook →

How policy support is driving profit growth in key sectors

### Alternatives →

Investment opportunities in Asian infrastructure

## Market Spotlight

### Fed turbocharges EM

Emerging market equities have had a good year so far, with the MSCI EM index clocking in double-digit returns. And the previous week’s cooler-than-expected US inflation and increased expectations of Fed easing is undoubtedly good news for the EM asset universe.

Take Latin America for example. An EM laggard this year, a delay to the Fed pivot has forced the likes of Brazil, Mexico, and Chile – which were early rate-cutters – to adopt a more cautious approach. But recent developments in the US revives hopes that they can proceed with more easing – which should be good for local asset prices.

Underlying inflation in Brazil and Mexico has softened, and Brazil has announced spending cuts to allay fiscal concerns, even if this may weigh on growth. Regional stock markets are also benefitting from a global broadening of profit growth.

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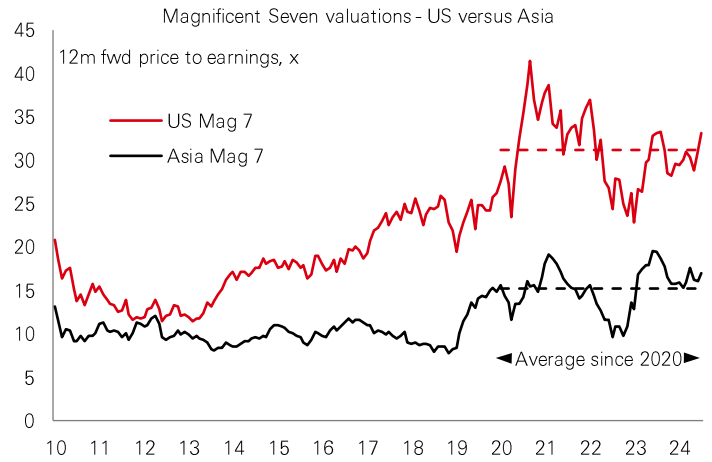
Source: HSBC Asset Management. Macrobond, Bloomberg. Data as at 11.00am UK time 19 July 2024.

### Asia's Magnificent Seven

Technology and AI have been the biggest themes in global stocks for two years. Nowhere has that been more evident than in the strong returns of the US's Mag 7 tech stocks. But while those firms dominate headlines, an alternative Mag 7 in Asia could offer similar tech-driven growth at a more reasonable price.

A basket of seven of Asia's largest and fastest-growing chip makers and IT electronics firms has delivered a near 20% annualised return since 2020. While that falls short of the 30% return from the US Mag 7, it handily beats the 14% return from the MSCI USA index over the same period.

Back in 2012, the two Mag 7 groups traded on similar valuations, with forecast price-earnings (PE) ratios of around 12x. But since 2020, the average forecast PE of the US group has jumped to 30x, while the Asia Mag 7 is just half that. **With superior sales and earnings forecasts for 2024 and 2025, the Asia Mag 7 growth outlook looks encouraging**, and could offer a more attractively priced route to investing in the global technology theme.

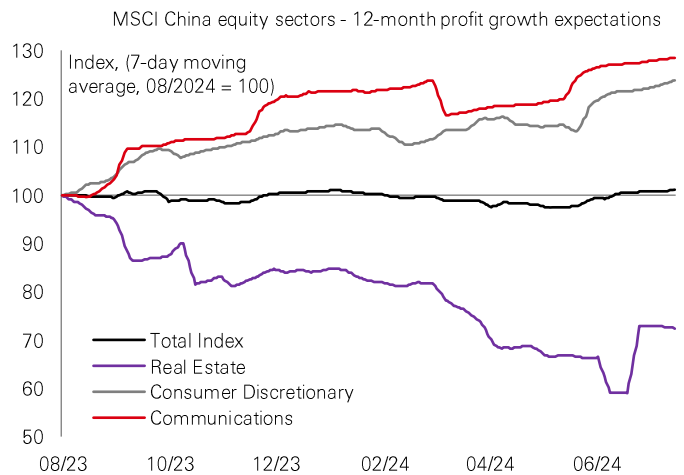


### China's profits shift

In China, mixed macro data have translated into some investor concerns over the earnings outlook. This coincides with a period of weakness in the country's equity markets that began in late May, despite still solid year-to-date gains. And last week's softer-than-expected Q2 GDP print is unlikely to help.

While government policy support has buoyed confidence, all eyes are on further pro-growth measures that might come after last week's Third Plenum meetings.

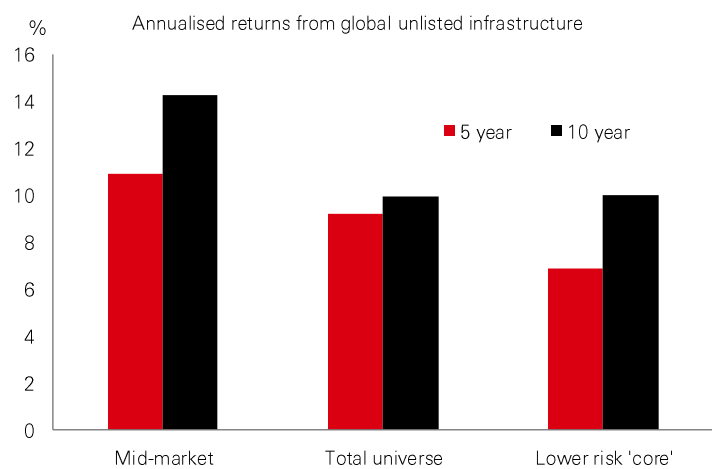
Targeted policy measures so far reflect a shift in China's economy away from reliance on property towards high-tech manufacturing and service sectors. **This is showing up in a pick-up in profit growth expectations for sectors like consumer discretionary and communications services.** These moves have offset a negative trend in the profit outlook for real estate and kept expectations for the broader market steady.



### Upside in Asian infrastructure

Global unlisted infrastructure has become a popular portfolio diversifier over the past 20 years. Some of the strongest returns across the asset class have come from the mid-market, where infrastructure projects tend to be smaller but less prone to cost overruns and delays. It's a part of the market that is sensitive to inflation and elevated rates, so recent progress on disinflation and the prospect of Fed rate cuts could provide a welcome boost. Asia, in particular, is a region where vast investment demand offers attractive opportunities.

Globally, the bulk of funds raised for infrastructure investment target the US and Europe. But with countries across Asia requiring huge investments in areas like renewables and digitisation, it's arguably being under-served. In its favour, **Asia offers plentiful projects and lower competition for deals, with many countries enjoying relatively benign inflation – putting them in a solid position to pursue new infrastructure developments.** But there are risks in mid-market projects, so careful deal selection, intensive asset management, and on-the-ground knowledge are essential.



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Source: HSBC Asset Management, Macrobond, Bloomberg, EDHEC indices: Infra100 Midmarket, Infra300, Infra100 Core. Data as at 11.00am UK time 19 July 2024.



## Key Events and Data Releases

### Last week

Date	Country	Indicator	Data as of	Actual	Prior
Mon. 15 July	US	Republican National Convention			
	US	Fed Chair Powell speaks at Economic Club of Washington			
	CN	3rd plenum starts	Jul		
	CN	GDP (q-o-q)	Q2	0.7%	1.6%
	CN	Retail Sales (y-o-y)	Jun	2.0%	3.7%
	CN	Industrial Production (y-o-y)	Jun	5.3%	5.6%
Tue. 16 July	US	Retail Sales (mom)	Jun	0.0%	0.3%
Wed. 17 July	UK	CPI (y-o-y)	Jun	2.0%	2.0%
	EZ	Eurozone CPI (y-o-y)	Jun (F)	2.5%	2.5% (P)
	ID	Indonesia Central Bank Interest Rate Decision	Jul	6.25%	6.25%
	US	Housing Starts (m-o-m)	Jun	3.0%	-4.6%
	US	Industrial Production (m-o-m)	Jun	0.6%	0.9%
	EZ	ECB Interest Rate Decision	Jul	3.75%	3.75%
Fri. 19 July	JP	Nationwide CPI excluding Fresh Food & Energy (y-o-y)	Jun	2.2%	2.1%

P – Preliminary, Q – Quarter, F – Final US – United States, CN – China, UK – United Kingdom, EZ – Eurozone, ID – Indonesia, JP – Japan

### The week ahead

Date	Country	Indicator	Data as of	Survey	Prior
Mon. 22 July	US	Q2 Earnings Update	Q2		
	CN	Loan Prime Rate (5yr)	Jul	3.95%	3.95%
Tue. 23 July	US	Existing Home Sales (m-o-m)	Jun	-2.7%	-0.7%
	TY	Turkish Central Bank Interest Rate Decision	Jul (P)	50.00%	50.00%
Wed. 24 July	IN	HSBC Composite PMI	Jul (P)	-	60.9
	EZ	HCOB Composite PMI	Jul (P)	50.8	50.9
	US	S&P Global Composite PMI	Jul (P)	-	54.8
	US	New Home Sales (m-o-m)	Jun	3.4%	-11.3%
	CA	Bank of Canada Interest Rate Decision	Jul	4.7%	4.75%
Thu. 25 July	GE	IFO Business Climate Index	Jul	89.0	88.6
	US	GDP (q-o-q annualised)	Q2 (P)	1.8%	1.4%
Fri. 26 July	US	Core PCE Inflation (y-o-y)	Jun	2.6%	2.6%
	US	University of Michigan Consumer Confidence Index	Jul (F)	-	66.0
	JP	Tokyo CPI excluding fresh food & energy (y-o-y)	Jul	1.6%	1.8%

P – Preliminary, Q – Quarter, F – Final US – United States, CN – China, TY – Turkey, IN – India, EZ – Eurozone, CA – Canada, GE – Germany, JP – Japan

Source: HSBC Asset Management. Data as at 11.00am UK time 19 July 2024.



## Market review

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Rising US political uncertainty weighed on risk markets, with the US DXY index remaining on the defensive. Core government bonds were range-bound despite stronger-than-expected US data. Dovish comments from Fed Chair Powell cemented market expectations of two 0.25% rate cuts in H2 2024. ECB president Lagarde stated September's meeting was "wide open", and reiterated rate cuts are "data dependent". US equities saw a rotation away from the tech-dominant S&P500 and Nasdaq to the rate-sensitive Russell 2000. The Euro Stoxx 50 fell, with the defensive Swiss SMI outperforming the Dutch AEX index. Japan's Nikkei suffered as a firmer yen weighed on export-orientated stocks. In EM, the Shanghai Composite weakened amid disappointing Q2 GDP data. India's Sensex reached new highs. In commodities, oil prices traded sideways, and copper fell. Gold remains just below all-time highs.

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