# Think Future **2021**

## Your guide to the global investment landscape

HSBC

Together we thrive

# Contents



# Promising but unfamiliar terrain ahead

It's an immense pleasure to bring you our first issue of Think Future, which charts our key investment ideas for 2021. We hope you find it a stimulating and useful read as you plan for the months ahead.

This year has been unlike any in recent memory, with the pandemic exerting a profound influence on almost all areas of life. Despite this, financial markets have reached new highs while optimism has been buoyed yet again by recent vaccine developments.

These vaccines exemplify what science and humanity can accomplish, and give us cause for further optimism in 2021. If successful, they could help to accelerate the global economic recovery, driving corporate earnings and financial markets even higher.

On the other hand, we shouldn't expect all of 2020's many challenges to disappear magically as a result of a medical breakthrough, no matter how impressive. The logistics of mass vaccination are complex, and further waves of the pandemic can't be ruled out, which could still cause major problems for some businesses.

For investors, the challenge is to work out how best to take advantage of the recovery while guarding themselves against unexpected shocks. In an environment of rock-bottom, even negative interest rates, traditional government bonds can't always be relied on for safety.

Right now, themes like these figure prominently in our discussions with clients. Clarifying these issues and putting them in context for you is the main task of our investment teams - the sum of their efforts is contained in this publication. We trust you'll find our analysis interesting and relevant as 2021 unfolds.

Our best wishes for a healthy, prosperous, and resilient year ahead.

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## Insights: three vaccine scenarios and their investment implications

| Very Optimistic Scenario | Base case scenario | Pessimistic Scenario |
|---|---|---|
| Widespread vaccination early in 2021 with high uptake rates. Consumer demand back to pre-pandemic levels. | Widespread vaccination commence mid-late 2021. Consumer demand meets current projections. | Vaccine ineffective or uptake poor. Partial lockdowns persist. |
| **Assets we favour:** | **Assets we favour:** | **Assets we favour:** |
| • Full cyclical stocks<br>• Value stocks<br>• High yield bonds<br>• EM local currency bonds | • Mild cyclical stocks<br>• Growth stocks<br>• High yield bonds<br>• Investment grade bonds<br>• EM hard currency bonds | • Defensive stocks<br>• Government bonds<br>• Investment grade bonds<br>• Gold<br>• Safe-haven currencies |

Note: Investment involves risks. For illustrative purpose only.

# 2021 in charts

## 1. Asia will lead the world into recovery

Asia-Pacific forms the world's largest trade block

Regional Comprehensive Economic Partnership (RCEP) key facts

Countries
**15**

Share of global trade
**28%**

Population
**2.2 billion**

Combined GDP
**$26.2 trillion**

Share of global economic output
**30%**

Source: Statistics,: Bloomberg, The Guardian, as of Nov 2020.

Highlights of China's new five-year plan

- ► Dual circulation
- ► Modernisation
- ► High-quality development
- ► Technological self-dependence
- ► Innovation-driven

Source: Global Times, as of Nov 2020.

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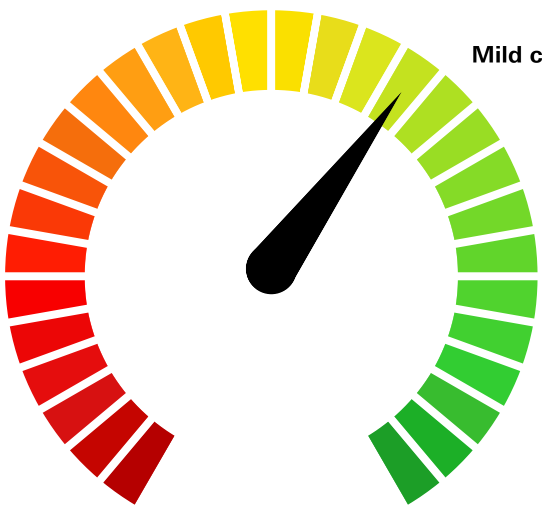
## 2. Cyclical stocks will outperform

Expect the market rally to broaden and include cyclical sectors

Sensitive:
- Industrials
- Communication services
- Technology
- Energy

**Mild cyclical positioning**

Defensive:
- Healthcare
- Consumer Defensive
- Utilities

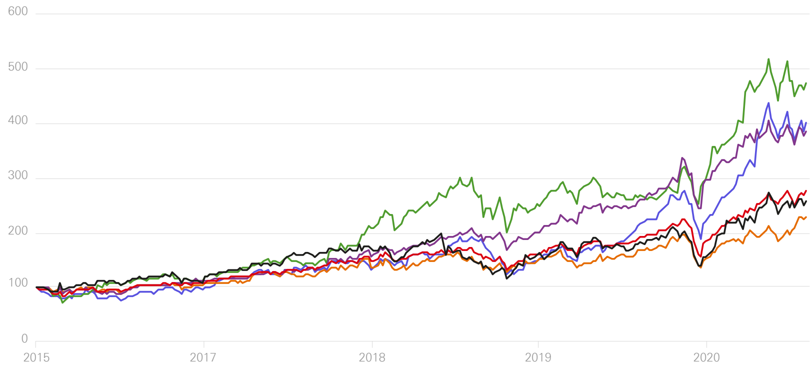


Cyclical:
- Basic Materials
- Consumer Cyclical
- Financial Services
- Real Estate

Note: Investment involves risks. For illustrative purpose only.

## 3. Tech is here to stay...

The "FAANG" stocks have outperformed the broader tech sector




Facebook
Amazon
Apple
Alphabet (Google)
Microsoft
MSCI World IT

**Source:** Refinitiv datastream, as of 8 Dec 2020. Rebased to 100. Investment involves risks. Past performance is not an indication for future. For illustrative purpose only.

## ... so consider other ways of tech exposure

**Automation**
Supply chain

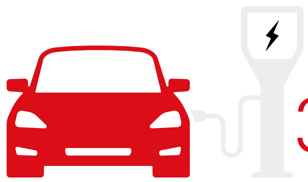
**Emerging Markets**
Asia's supply chain revamp
China's innovation
ASEAN's tech upgrade

**Digital Consumer**
E-Commerce
AI
Virtual Reality

**Healthcare Innovation**
Telemedicine
Sensor Technology
Biotech

**5G**

## 4. Sustainable investments will become the "new normal"



350 New Electric Vehicle (EV) models are scheduled to be launched by 2025

EV penetration in the global auto market

2019 2.9%  2020e 4.5%  2025e 14.6%

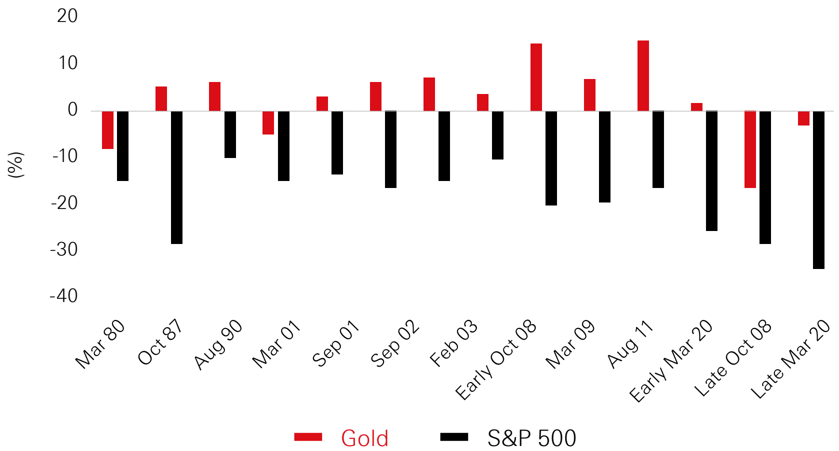
Source: HSBC Global Research, Sep 2020.

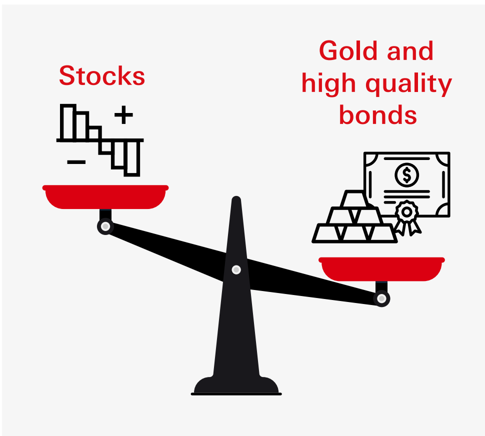
**Commitments from global governments**

- US: Biden's $2trn "Green New Deal", plus plans to achieve net zero Green House Gas emissions by 2050
- EU, UK & Japan: become carbon neutral by 2050
- China: to achieve carbon neutrality by 2060

## 5. Gold will keep shining as a portfolio diversifier

Gold remains a good tail risk hedge during the worst equity market periods




Source: Bloomberg, HSBC Private Bank, as of 10 Oct 2020.
Note: Investment involves risks. Past performance is not an indication for future. For illustrative purpose only.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# Status report: the global economy

### A "return to normal"?

In 2020, the Covid-19 pandemic triggered the strongest economic contraction in modern history. We expect a resumption in growth during 2021, most likely without a corresponding rise in inflation or interest rates, despite governments being more indebted than ever.

For the year as a whole, our projection is for the global economy to grow by 4.8%. The size of this recovery will, of course, be influenced by the scale of the contraction in 2020, as well as by breakthroughs in vaccine research and the immense levels of economic stimulus deployed.

The expansion is expected to drive corporate earnings growth and asset appreciation over time. We're most positive about the US and China, with China likely to be the biggest contributor to global GDP growth in 2021. Europe may well begin to accelerate later in the year, but for now Covid-19 is still a major challenge.

Despite all this, a degree of "normalisation" will probably only occur following broad take-up of a successful vaccine. Given the logistical complexity, this only seems likely by mid-2021 at the earliest.

### Interest and inflation take a back seat

Because of continued downward pressure on wages and high levels of unemployment, we don't anticipate much of an inflationary threat in 2021. In fact, low and stable interest rates are likely for the foreseeable future.

We expect global inflation to be 2.5% in 2021. Low inflation means central banks will be in no hurry to raise interest rates, and while a small uptick in inflation could result from selected cost pressures and oil price base effects, it shouldn't be enough to trigger a change in central bank policy. As a result, government bond yields should remain low.

### What does all this mean for investors?

Given the climate of higher equity valuations and record-low interest rates, we expect total returns for various asset classes to be lower over the next few years. However, even though their returns may be low in historical terms, equities still constitute a good investment opportunity, particularly when compared to bonds.

### Global economy: key forecast figures

| | GDP growth (%) | | Inflation (%) | |
|---|---|---|---|---|
| | **2020f** | **2021f** | **2020f** | **2021f** |
| **Global** | -3.7 | 4.8 | 2.5 | 2.5 |
| **US** | -3.4 | 3.5 | 1.2 | 1.7 |
| **Eurozone** | -7.3 | 4.7 | 0.3 | 0.9 |
| **UK** | -11.1 | 4.3 | 0.8 | 1.4 |
| **Japan** | -5.3 | 3.2 | 0.0 | 0.0 |
| **Mainland China** | 2.3 | 8.5 | 2.5 | 1.0 |

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

# Five investment predictions for 2021

## 1. Asia will lead the world into recovery

Asia has better recovery prospects than most economies right now, due largely to a few specific catalysts that could drive growth higher. In particular, China's five-year plan focuses on stimulating the middle class and increasing the country's internal technological capability, while opening its capital markets wider to outsiders.

Meanwhile, the Regional Comprehensive Economic Partnership (RCEP), a trade deal involving 15 Asia-Pacific countries that together represent over 30% of global GDP, is also likely to stimulate trade and activity in the region, while creating exciting new supply chains in ASEAN.

**We are Overweight (in the context of a diversified portfolio) on China, Singapore and South Korea equities.**

## 2. "Cyclical" stocks will outperform

Given recent developments on the vaccine front, hopes are high that national economies might soon return to some semblance of normality. This would be great news for cyclical sectors, which depend on a strong economy to make money.

We're assuming that a vaccine will be available by mid-late 2021. Based on that, we believe the industrial sector, materials sector and consumer discretionary sector all have potential to benefit from an upswing in consumption. But of course, a smooth vaccine rollout isn't a foregone conclusion.

**We favour focusing on high-quality cyclical companies with the financial strength to weather short-term storms, which could include further waves of the virus.**

## 3. Tech is here to stay

Technology companies have outperformed, thanks to a much-discussed acceleration in digital consumption. Once the pandemic is over, we still think tech will carry on performing well.

Why? Because in our view, the 2020 boom in tech uptake is structural, and will therefore continue to permeate supply chains, commerce, healthcare, media consumption, communications and a wide range of other areas.

**It will be especially interesting to watch technology companies from Emerging Markets, whose exciting growth potential often comes with more attractive valuations.**

## 4. Sustainable investments will become the "new normal"

In 2021, we believe a potent cocktail of catalysts will help to entrench sustainable investments more deeply into the mainstream, while also pushing them higher long-term.

President-elect Biden has promised a $2trn green energy and infrastructure plan, although there's some uncertainty as to whether it will pass Congress. Meanwhile, China has committed to achieving carbon neutrality by 2060.

**In our view, sustainable investments should be a cornerstone of investor portfolios in 2021. The commitments outlined above will benefit companies exposed to a wide range of markets, from electric vehicles to renewable energy, infrastructure, and more.**

## 5. Gold will keep shining as a portfolio diversifier

With yields on high quality bonds likely to stay ultra-low for some time, it's possible to argue that they don't really offer much protection in a portfolio. As such, other options may be necessary, and gold is a prime candidate. Its strong relationship to real interest rates should also offer protection against positive inflation surprises.

There remains an abundance of uncertainty, with the imminent risks of Brexit, continued geopolitical uncertainty and the as-yet uncertain success of a coronavirus vaccine.

**We think gold will continue to be an important portfolio diversifier in 2021.**

# Regional market outlook

## United States

After the combined turbulence of Covid-19 and a hard-fought 2020 election, a period of steady growth and renewal now hopefully lies ahead. Several factors are likely to underpin growth and earnings in the US, thereby furthering the stock market rally. These include the rollout of the coronavirus vaccine, major fiscal stimulus, ongoing Fed support and a more predictable trade policy.

**Over the next 3-6 months, we like:**

- **US Equities**
- **The following US equity sectors:** technology, communications, industrials, materials, consumer discretionary and healthcare
- **US high-yield and investment grade corporate bonds**

## Eurozone and UK

A second wave of the virus has engulfed Europe, setting back its recovery and lowering our growth expectations considerably. Further fiscal and political integration will be key to a successful long-term recovery from Covid-19.

For the UK, any rebound in 2021 is likely to be muted, given the damage caused by two major national lockdowns and post-Brexit trade disruption.

**Over the next 3-6 months, we are Neutral on Eurozone and UK equities as a whole, but like the following European sectors:** technology, communications, materials, industrials, healthcare and utilities.

## Japan

Marginal positive growth should be possible in 2021, although uncertainty about the country's new leadership may impact inflation and growth.

With interest rates already negative and quantitative easing under way, the Bank of Japan has only a limited number of monetary stimulus measures left in its arsenal to boost inflation and growth. Also, the current expansionary fiscal policy could mean an increased burden in the future, with rising social security costs from the ageing population.

**On balance, we're staying Neutral on Japan equities in the next 3-6 months.**

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

Re-establishing a path to sustainable growth is the region's main challenge.

In the case of CEE countries like Poland, closer integration into broader European production chains, with the prospect of EU funding, could provide support. However, the resurgence of COVID-19 and the re-imposition of some restrictions on activity have created some downside risks.

In Latin America meanwhile, near-term macroeconomic challenges remain substantial amid ongoing political risks, virus transmission and low commodity prices. There is uncertainty over the speed of vaccine rollout in 2021.

**Overall, we remain Underweight on CEE and LatAm equities in the next 3-6 months despite cheaper valuations.**

## Asia (excluding Japan)

Most Asian markets have recovered from the pandemic and will enjoy significant growth in 2021. Consumption in the region shows considerable momentum, resulting in long-term structural growth potential. China's new five-year plan appears orientated towards a high-tech economy led by domestic consumption, while becoming more open to foreign investment. The Asia-Pacific RCEP trade deal (see page 4) also emphasises a revamp of supply chains and upgraded technological capability.

**Over the next 3-6 months, we like:**

- **Asia (ex-Japan) equities and in particular, the following sectors:** technology, communications, consumer discretionary, real estate and healthcare
- **Chinese, Singaporean and South Korean equities**
- **Chinese local and hard currency bonds**

# Appendix: HSBC house views

| Asset class | Short-term view (3-6 months) | Long-term view (> 12 months) |
|---|---|---|
| **Global equities** | | |
| **Global** | ▲ | ▲ |
| **United States** | ▲ | ▲ |
| **United Kingdom** | ▶ | ▲ |
| **Eurozone** | ▶ | ▲ |
| **Japan** | ▶ | ▶ |
| **Emerging Markets (EM)** | ▶ | ▲ |
| **Central & Eastern Europe and Latin America** | ▼ | ▶ |
| **Asian equities** | | |
| **Asia ex-Japan** | ▲ | ▲ |
| **Mainland China** | ▲ | ▲ |
| **India** | ▼ | ▲ |
| **Hong Kong** | ▶ | ▲ |
| **Singapore** | ▲ | ▲ |
| **South Korea** | ▲ | ▲ |
| **Taiwan** | ▶ | ▲ |
| **Commodities** | | |
| **Gold** | ▲ | ▶ |
| **Oil** | ▶ | ▶ |

| Asset class | Short-term view (3-6 months) | Long-term view (> 12 months) |
|---|---|---|
| **Government bonds** | | |
| **Developed markets (DM)** | ▼ | ▼ |
| **United States** | ▶ | ▼ |
| **United Kingdom** | ▲ | ▼ |
| **Eurozone** | ▼ | ▼ |
| **Japan** | ▼ | ▼ |
| **Emerging Markets (local currency)** | ▶ | ▲ |
| **Emerging Markets (Hard currency)** | ▲ | ▼ |
| **Corporate bonds** | | |
| **Global investment grade (IG)** | ▲ | ▼ |
| **USD IG** | ▲ | ▼ |
| **EUR and GBP IG** | ▶ | ▼ |
| **Asia IG** | ▲ | ▲ |
| **Global high-yield (HY)** | ▲ | ▲ |
| **US HY** | ▲ | ▲ |
| **Europe HY** | ▶ | ▶ |
| **Asia HY** | ▲ | ▲ |

Note:

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

**Long-term view** (> 12 months):
a relatively long-term view on asset classes for strategic asset allocation.

▲ "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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