

## HSBC Eight Key Calls for 2013

### Economics

Key theme: Forget the West, focus on China. The world's second-largest economy will grow 8.6% in 2013, benefiting countries and companies either close geographically to China or important in satisfying the demand for commodities. In contrast, developed markets will only grow 0.9%, the HSBC analysts predicted.

“There can be no doubt that a stronger China connection pays dividends. Those countries which have increased their trade exposure to China – typically at the expense of their exposures to the “old world” – have mostly enjoyed rapid gains in economic activity over the last decade or so,” the analysts said.

### Fixed income

Key theme: Modest returns in 2013. In 2012, fixed income investments saw sharp gains, but overall returns this year should drop to a modest 5-6%, driven more by results from coupons than price gains. Yields for core rates – including Treasuries, gilts and bunds – could rise 30 basis points over the next 12 months, which will still keep rates low by historical standards, but not when considering current levels.

“With volatility likely from yield levels and spreads, investors will be encouraged to make extensions on steep curves to pick up yield. But this needs to be done in the context of extended central bank guidance pressuring curves flatter from the front-end and fiscal policy uncertainty and its impact on the long ends,” HSBC analysts said.

### Foreign exchange

Key themes: Weaker sterling, stronger yen. With the threat of a sovereign downgrade for the U.K. more potent than ever in 2013, the pound is poised for a weak year. The HSBC analysts suggest buying into the euro and selling the pound.

The Japanese yen is also likely steal the limelight in 2013. Recent weakness in the currency on the back of aggressive monetary easing expectations makes a good investing opportunity, as the “market looks set to be disappointed both in terms of the scale of easing and the likely time frame of delivery,” the analysts said. Hence, sell the U.S. dollar and buy more yen.

## Global equities

Key theme: Another choppy year. Investors should brace for a year with big swings up and down, but global equity markets should ultimately eke out gains, as investors regain confidence and central banks continue aggressive easing around the world. HSBC suggests remaining neutral between the cyclical and defensive blocs and instead focusing on opportunities in value stocks, which have underperformed consistently in the five years since the financial crisis.

“Key to further multiple expansion will be whether investors get more comfortable with equity risk. Investors have piled into fixed income in the past four years, while equity funds have seen almost no inflows. But investors now are paid very little for owning bonds,” the analysts said. “As equity volatility continues to fall, we think investors will slowly appreciate again the merits of equities.”

## Asset allocation

Key theme: Go for a “barbell” strategy. Headline risks have been significantly reduced going into 2013, but risk appetite is still highly dependent on binary policy decisions. Given this uncertainty, the HSBC analysts, believe that a “barbell” combination of emerging market equities, gold and U.S. Treasuries is likely to be the best approach both on a tactically and strategically basis.

“Positioning in markets today is heavily skewed towards anything with a yield, and corporate credit in particular, under a ‘not-too-hot not-too-cold’ rationale in terms of risk and appetite for stable returns. We believe this over positioning in credit is likely to reverse if the business cycle stabilizes and relative valuations favor equities,” they said.

## Emerging markets

Key theme: The only game in town! When it comes to growth emerging markets are still the center of attention and HSBC expects an acceleration of growth on those markets to 5.4% in 2013 from 4.8% in 2012. Additionally, inflation is likely to remain under control, allowing monetary policy to remain accommodative.

“Our bullish view on EM assets for 2013 rests on our expectation that demand for EM assets will significantly exceed supply,” they said.

## Precious metals

Key theme: Gold for the win. The yellow metal should trend higher and reach \$1,760 an ounce in 2013, as the long-term consequences of quantitative easing ultimately are supportive for gold prices.

“The reluctance of gold-laden western central banks to dispose of their reserves, together with growing appetite for gold from emerging central banks as a tool to diversify their foreign exchange reserves away from the U.S. dollar, should support gold prices,” the HSBC analysts said.

Platinum and palladium prices are also likely to rally on tight supply, whereas the analysts see less scope for higher silver prices.

## **Climate change**

Key theme: Welcome back carbon risk. We're facing another year of above average global temperatures, likely to prompt increased focus on reducing the carbon footprint. U.S. President Barack Obama has already highlighted the climate as one of the top priorities of his second term, while the European Union aims to create scarcity in the carbon market. Meanwhile, China is like to beef up its low-carbon strategy and become the largest market for solar power for the first time, HSBC said.

“Strategically, we expect the long-term carbon risks facing fossil fuel assets to become more widely understood in the market. Our research on coal suggests that these risks are material, but capital markets have yet to price them in,” the analysts said.