Swoosh-onomics

Q4 Outlook

Macro & Investment Strategy
September 2020

HSBC
Global Asset
Management

Swoosh-onomics

Summary of Q4 Outlook views

Macro Outlook

- The **"swoosh recovery"** continues, with Developed Markets (DM) likely to reach pre-crisis levels of activity in late 2021/early 2022
- However, after the initial surge, growth is now set to moderate as economies enter the next phase of the recovery: the "**flatter part of the swoosh"**
- **A K-shaped recovery** – After the crisis, there are relative winners (China, industrialised Asia) and relative losers (emerging markets ex Asia, smaller oil exporters, frontier economies, and the UK)
- The global economy needs ongoing policy support. There is **little risk of inflation** in the near term.

Policy outlook

- Global central banks have rapidly expanded balance sheets since March to maintain the flow of credit & accommodate fiscal easing. The Fed has moved to average inflation targeting which implies **"lower for even longer" rates.** The European Central Bank (ECB) has indicated it expects to use the full EUR 1350bn of purchases allowed under PEPP[1], and the take-up of TLTROs[2] has been substantial
- The **broadening recovery in China** and financial stability concerns mean that the People's Bank Of China (PBOC) remains focused on targeted micro measures and fine-tuning.
- Globally, debt/GDP ratios have moved out 20-30% points post-Covid. There is a significant **risk of a fiscal policy error** if stimulus is withdrawn too early

Investment Views

- Pricing in many markets now discounts a swoosh recovery. We think that is a reasonable scenario and have **no big quarrel with market-pricing**
- Our Q4 scenario is for **range-bound markets**. Market risks are balanced.
- The hurdle for positive surprises is higher than before. But there are still a handful of asset classes – **Asia HY, China bonds, selected equities** - that continue to offer us relatively-high expected returns.
- Low yields and lost hedging properties point to a **Great Rebalancing** away from core government bonds into **alternative asset classes**

Key Risks

Fiscal policy error	Stimulus fatigue sets-in & policy support is withdrawn too early
Covid control	Virus 2nd wave & economic scarring means long run recovery is slow
Political uncertainty	US elections + Brexit + Trade tensions can still shock markets

[1] The ECB's pandemic emergency purchase programme. [2] The targeted longer-term refinancing operations. Source: HSBC Global Asset Management. Any views expressed were held at the time of preparation and are subject to change without notice. While any forecast, projection or target where provided is indicative only and not guaranteed in any way. HSBC Global Asset Management (UK) Limited accepts no liability for any failure to meet such forecast, projection or target.

Key views

	Asset Class	View	Comments
Macro factors	Risk budget	↔	Pricing in many markets now discounts a swoosh style recovery. Based on our analysis, that seems like a reasonable baseline scenario. And it means that we don't have a big quarrel with market pricing at this point.
	Global growth	▲	A "swoosh" recovery is our baseline scenario. Although the capital market line has flattened, risky assets remain attractive. Key questions remain: How fast will the macro recovery be? How will it be impacted by political and economic uncertainties?
	Duration	▼	Economic policy is not about rate cuts and QE anymore. That impacts the bond-equity correlation and could reduce the diversification properties of global bonds, at a time where they are more expensive and riskier than before
	Emerging Markets	↔	Emerging economies have limited capacity to fight the current health and economic crisis. But not all countries are created equally. We believe investors should look for "EM fortresses" that can be resilient versus market/macro/virus uncertainties. The bright spot is North Asia
Bonds	US	▼	Valuations on Treasuries are relativelly attractive versus other govvies. Forward guidance, average inflation targeting point to "lower for ever" interest rates, anchored bond yields and low volatility. But prospective returns are very low.
	Europe	▼	Prospective returns are negative and diversification benefits limited for core European bonds - as the covid crisis has shown. There is no clear reason why investors should own core euro bonds vs other govvies. Prefer Euro periphery bonds in context of recovery/policy progress
	Index-linked bonds	↔	Inflation is expected to be low. However, inflation risks are neglected by investors. Market pricing of inflation-linked bonds seem to offer a good entry point despite subdued inflation in the coming years. We prefer US TIPS to nominal bonds
	Local currency EM bonds	▲	Prospective returns for local EM debt are high, but most of it comes from cheap currencies while bond yields are reaching historical lows. Crucial to monitor recovery and virus trends - a "sudden stop" of capital flows and economic challenges could limit upside from asset class
Credits	Global IG	↔	Spreads have come down materially over the last couple of months. Meanwhile, index duration remains high and duration risk is not rewarded by the market. Overall, prospective returns have become unattractive
	Global HY	▲	Default rates are set to remain high, linked to the uncertainty and stress from the crisis. But valuations still look reasonable. Income return remains attractive vs the opportunity set
	Asia HY	▲	Asia HY can benefit from Chinese policy support and an emerging V-shaped recovery in Asia. Default rates should remain low and spreads look attractive relative to other global opportunities
	Hard Currency EM bonds	↔	The current environment is tricky for EMs. Many have limited policy space and weak healthcare systems. Defaults are likely to increase. However, prospective returns reflect these higher risks
Equities	US	▲	US equities have lead the rally mainly due to tech and quality exposure. However, there are early signs that a rapid recovery is beginning to be priced-in. For us, this means that the hurdle for positive surprises is higher than before
	Europe	▲	European equities are set to benefit from policy progress and a reach-for-beta in markets as the "swoosh recovery" continues. Potential dollar weakness supports the return profile of international equities
	Japan	↔	Japanese equities remain attractively priced (high equity risk premia), but we retain some caution connected to the ability of investors to unlock that value potential at present due to headwinds around growth, trade, policy, and the virus
	Asia (ex Japan)	▲	North Asia is "first-in-first-out" of the crisis and continues to benefit from a V-shaped recovery in China. Valuations are reasonable and a Tech sector bias remains favourable. Important to monitor that short-term market action does not run too far ahead of fundamentals.
	EM ex Asia	▼	Valuations have improved but are not anomalous. A global recession, limited policy space, and weak health systems make many EM economies vulnerable. Being selective remains key. We prefer North Asia
Alternatives	US dollar	▼	An easy Fed, bigger deficits, and an expensive dollar versus majors imply a slightly weaker USD profile as the "swoosh recovery" progresses
	Private Markets	▲	A swoosh recovery and low bond yields should support the overall environment for private markets going-forward
	Hedge Funds	▲	Hedge Funds can offer attractive diversification in an environment where investors can no longer rely on traditional safety asset classes (e.g. Trend and Multi-Strategy)
	Commodities	▲	Gold has had an impressive rally and could be more range-bound in Q4, but the macro environment of "lower for even longer" remains very favourable for gold and other commodities. Copper and other industrial commodities could benefit from continuation of "swoosh recovery".

Source: HSBC Global Asset Management. Any views expressed were held at the time of preparation and are subject to change without notice. While any forecast, projection or target where provided is indicative only and not guaranteed in any way. HSBC Global Asset Management (UK) Limited accepts no liability for any failure to meet such forecast, projection or target.

Part 1: The rally in everything?

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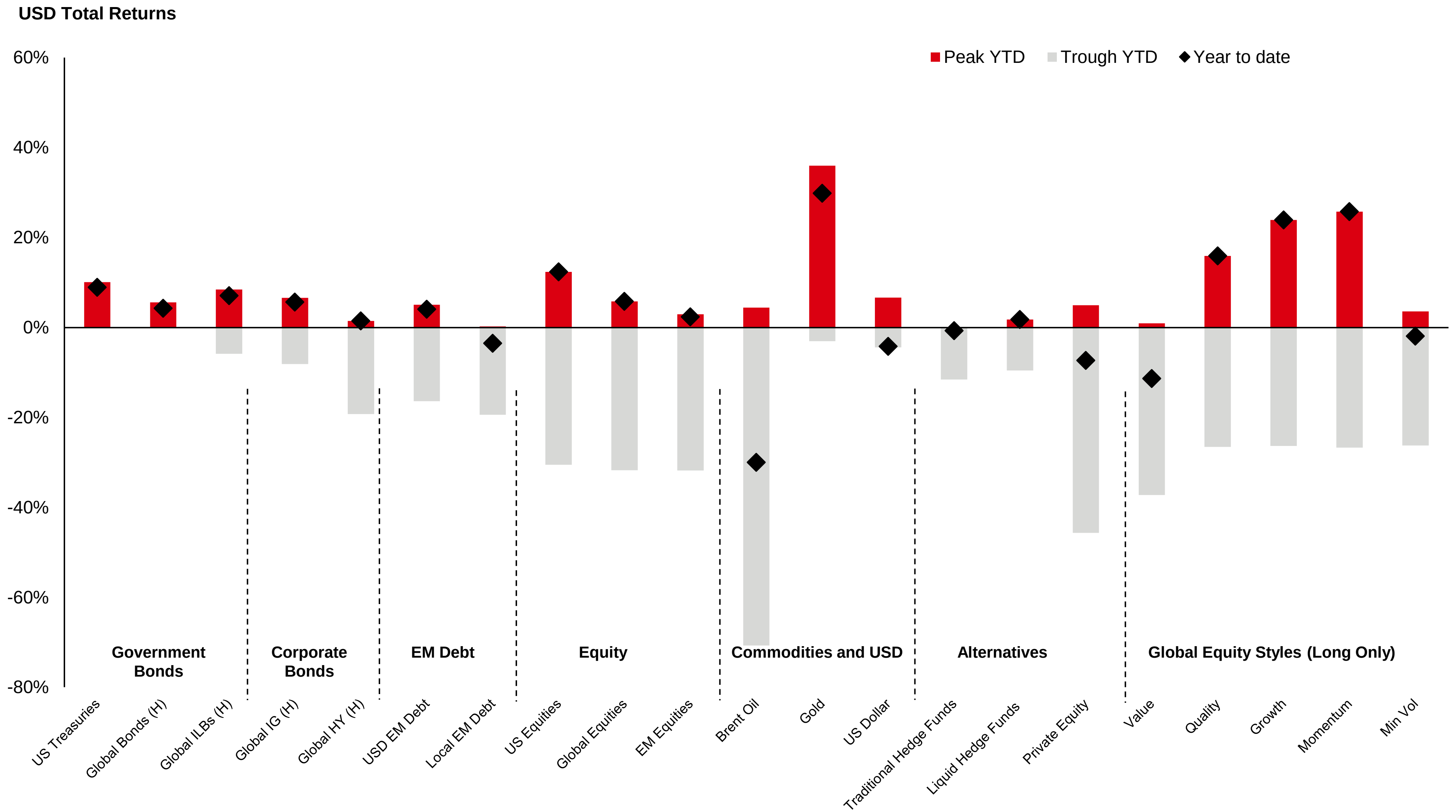
Market anatomy

Since March, it has been a “rally in everything”

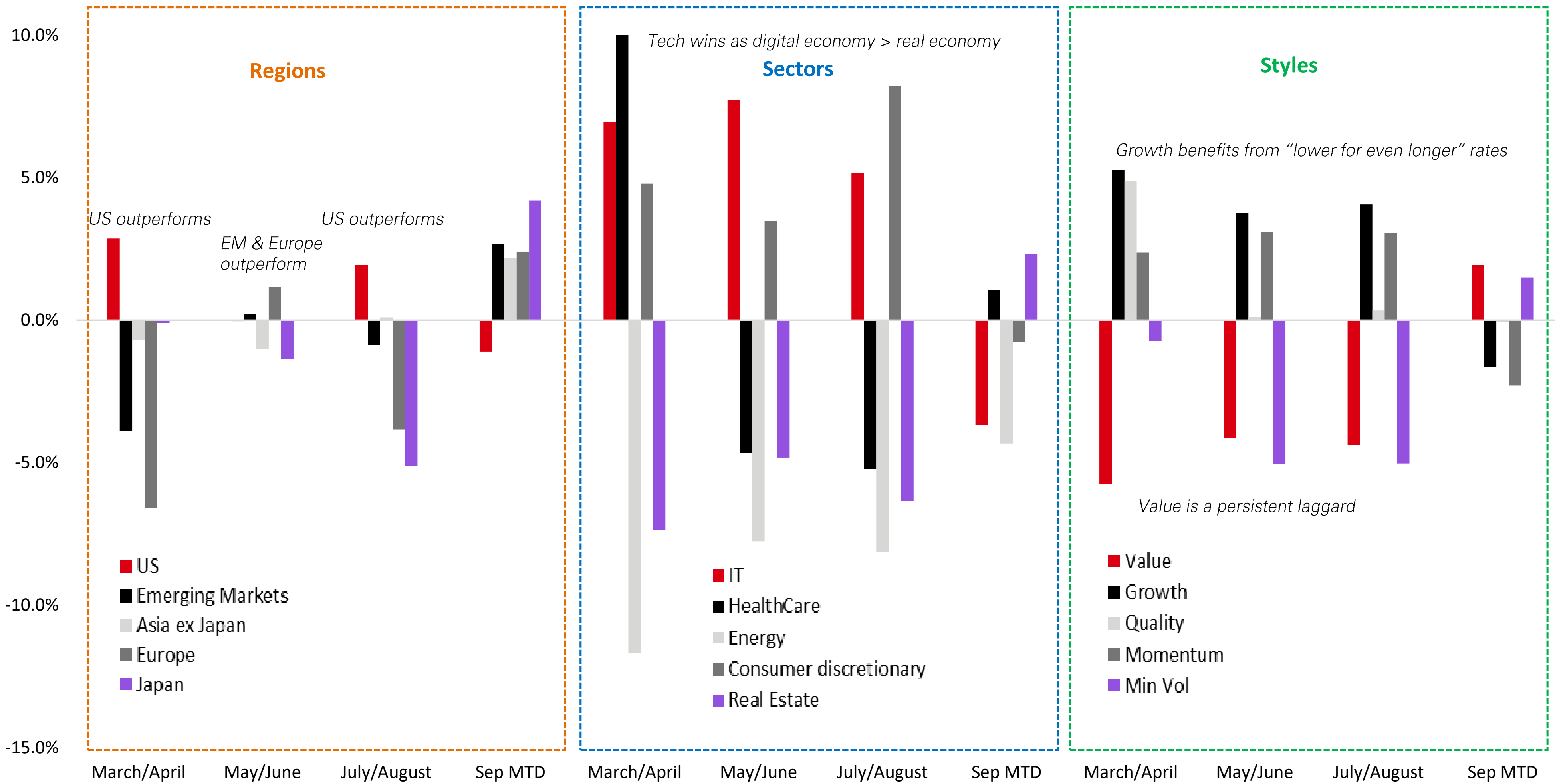


Past performance is not a reliable indicator of future performance. Source: Bloomberg, HSBC Global Asset Management, September 2020

Market anatomy

Several distinct "regimes" during the market recovery

Relative performance vs global equities



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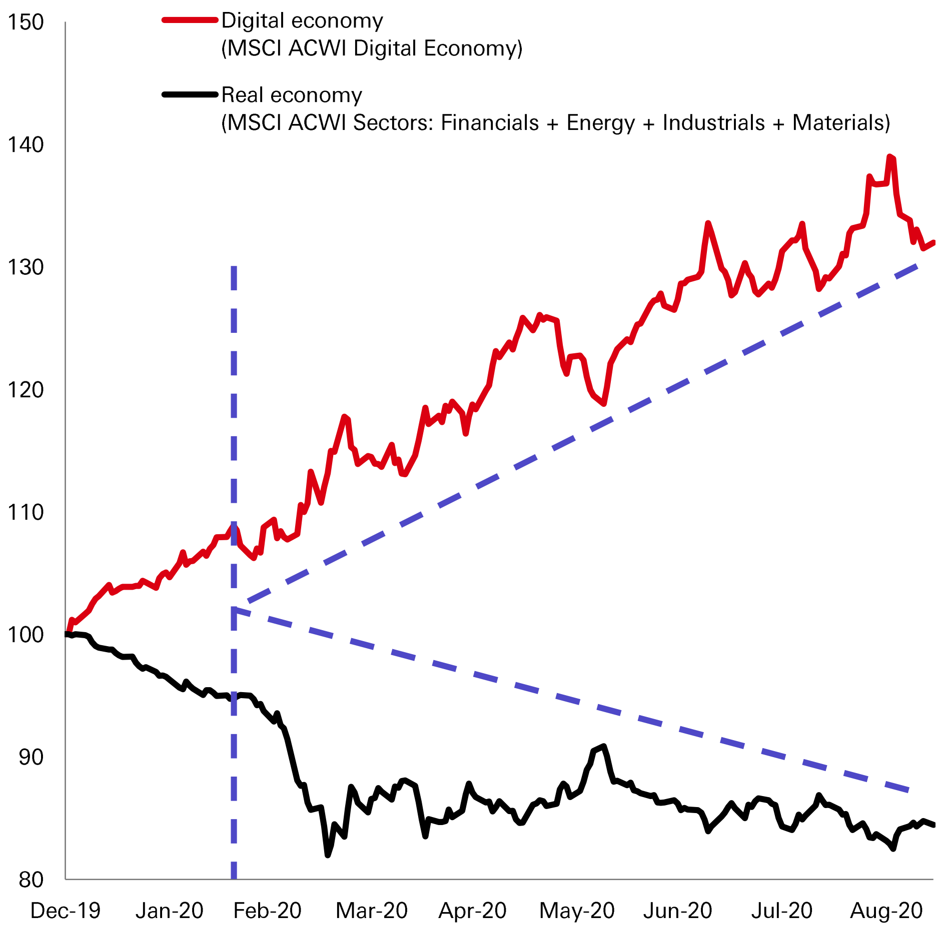
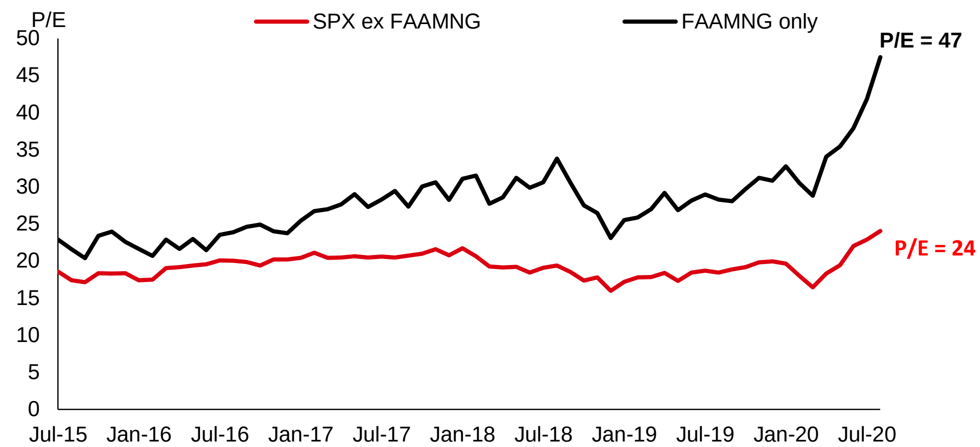
The digital economy versus the real economy

Covid has been a tailwind for the digital economy. It's been a "K" shaped recovery

K-shaped recovery (excess returns vs MSCI ACWI)

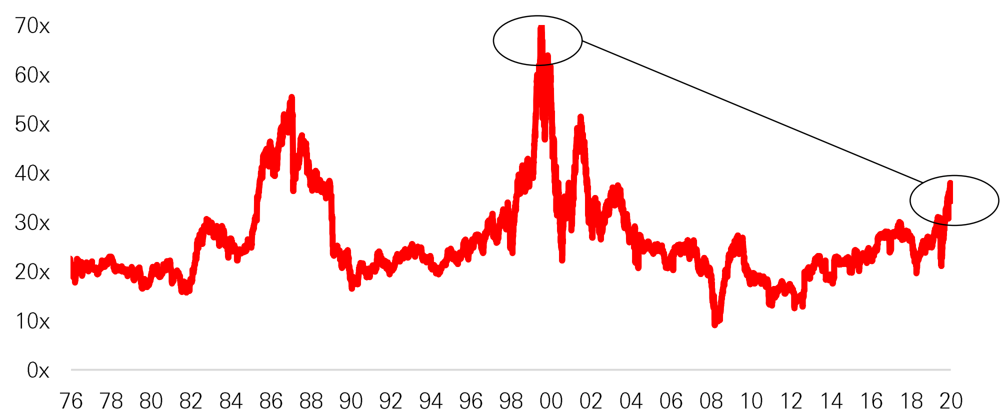


Valuations have moved a long way in Big tech...



...But still far from a market bubble

NASDAQ Forward Price-to-earnings Ratio



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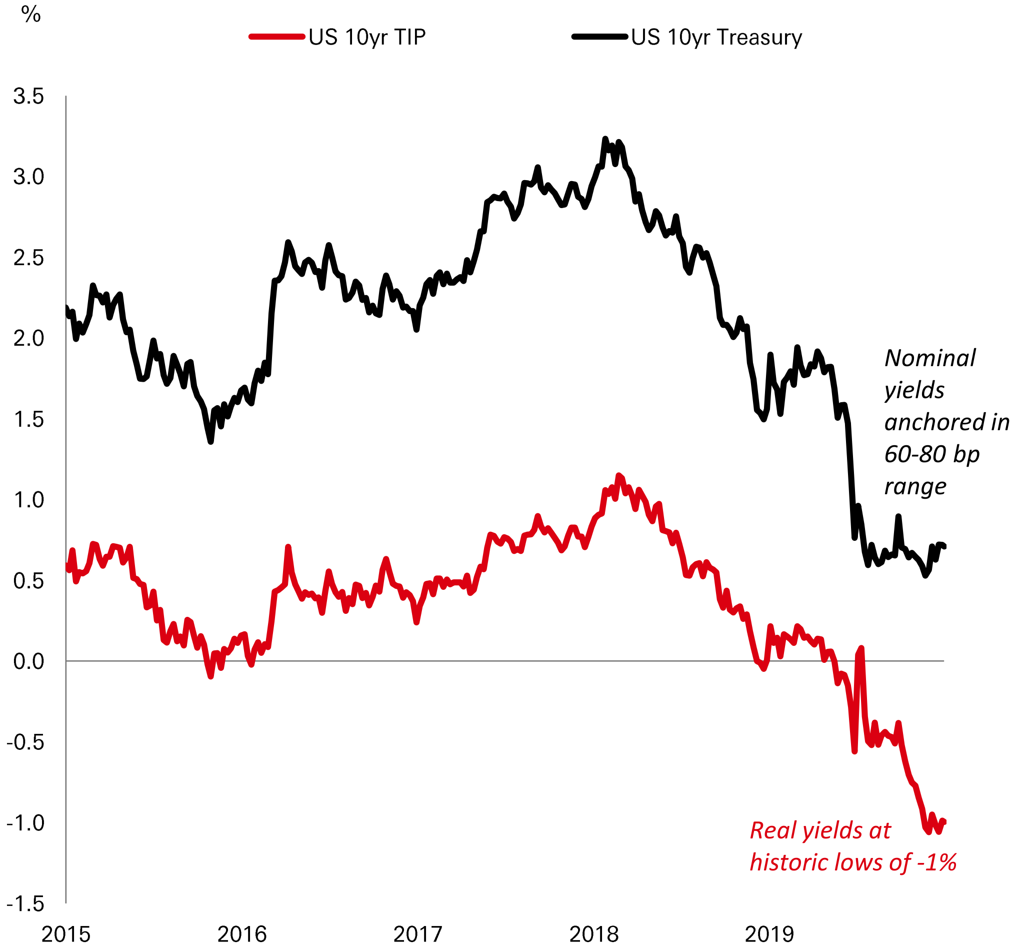
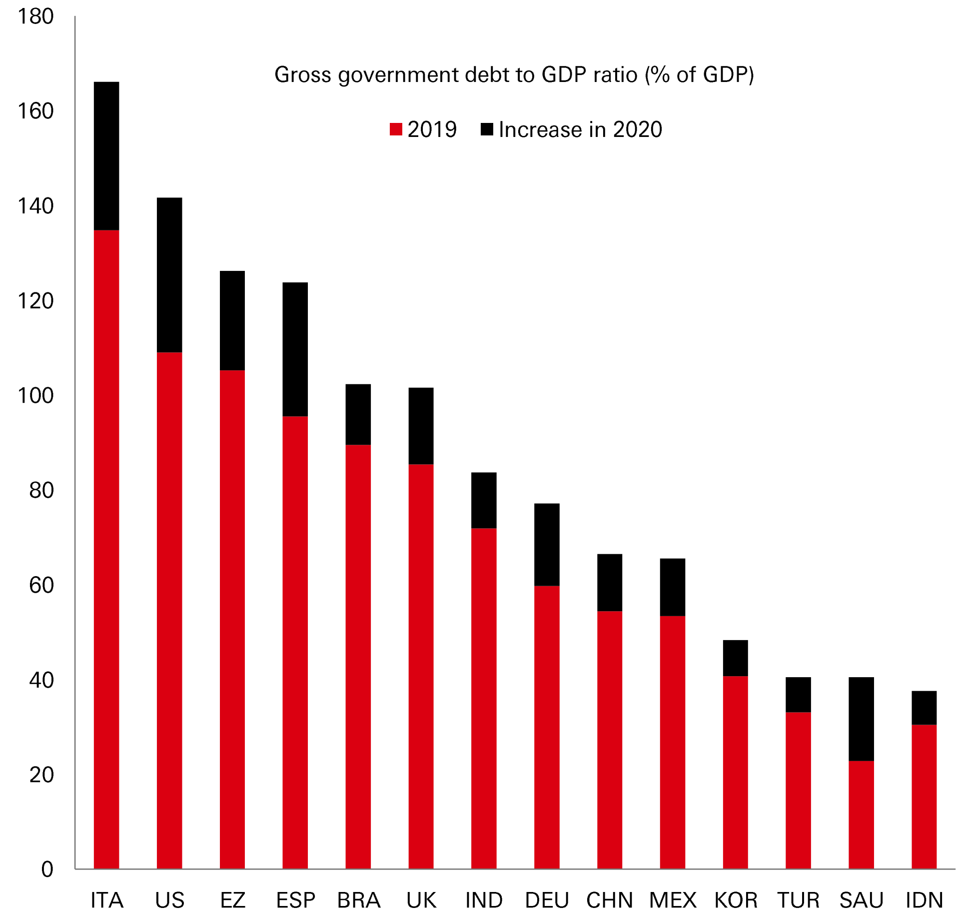
The drivers of the market recovery

Discount rates and fiscal policy

"Lower for even longer" interest rates



Public debt levels to increase by 20-30ppts in 2020

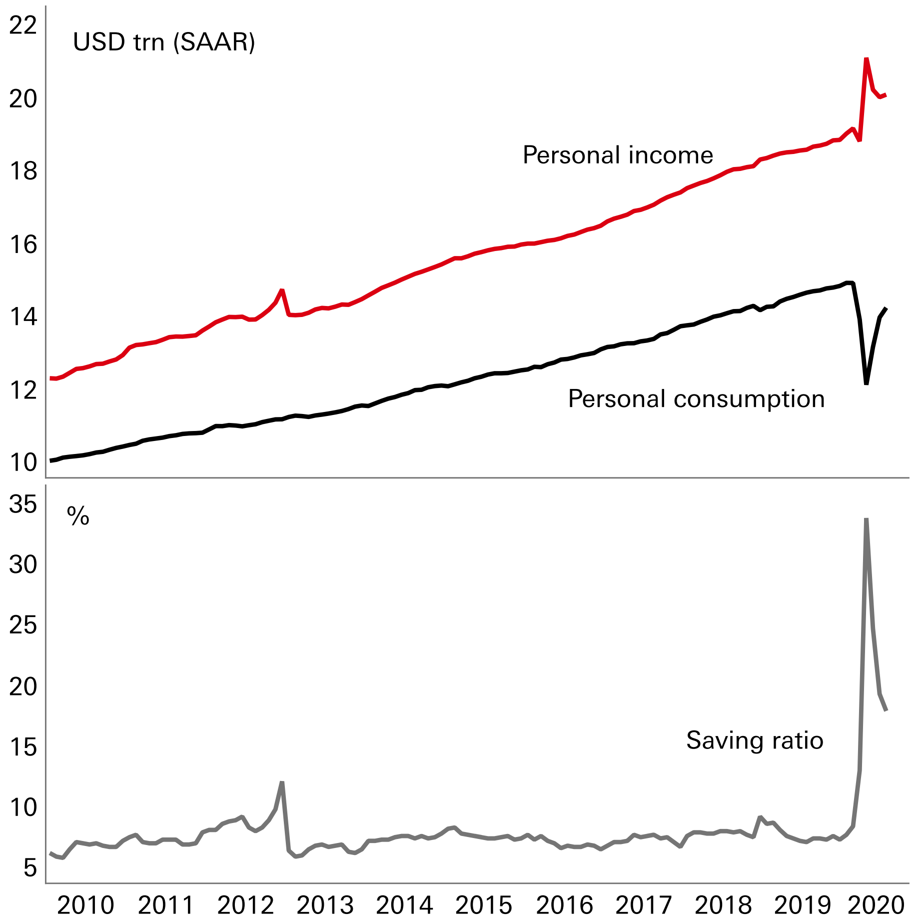


Past performance is not a reliable indicator of future performance. Source: HSBC Global Asset Management, IMF, September 2020. Any views expressed were held at the time of preparation and are subject to change without notice. While any forecast, projection or target where provided is indicative only and not guaranteed in any way. HSBC Global Asset Management (UK) Limited accepts no liability for any failure to meet such forecast, projection or target.

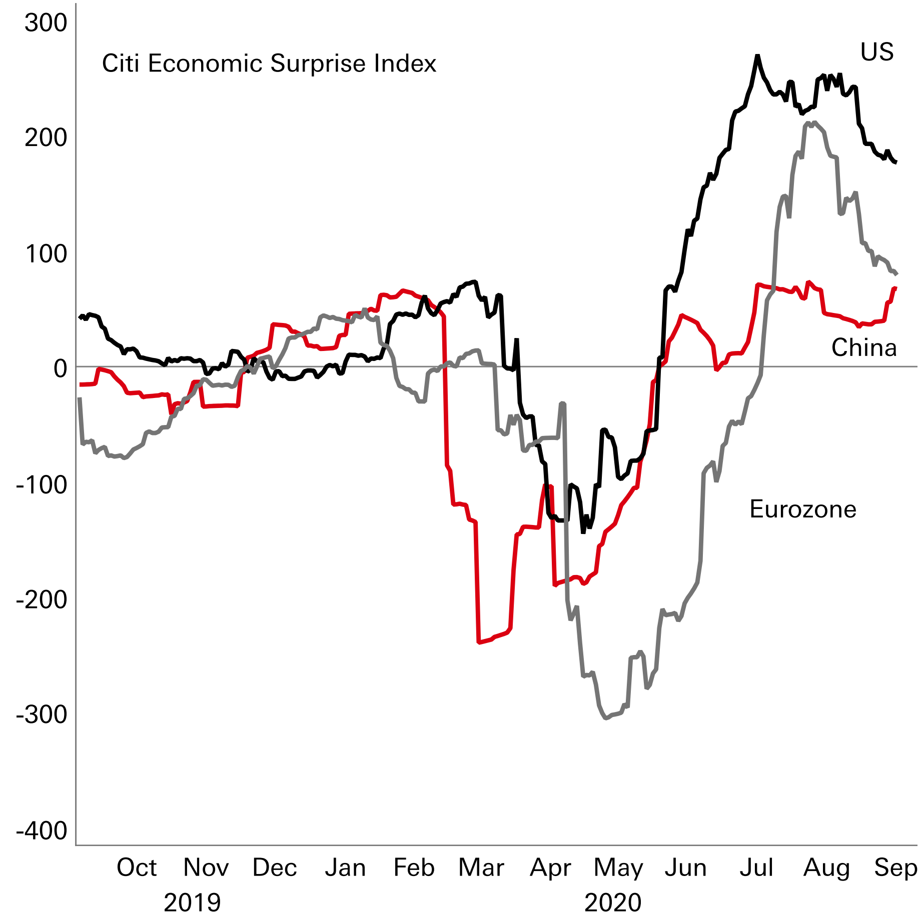
The drivers of the market recovery

Policy support has lifted household incomes, data has surprised

Household incomes lifted by fiscal support



Macro data has surprised to the upside



Source: HSBC Global Asset Management, Macrobond, September 2020.

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The drivers of market recovery

And a weaker dollar supports global liquidity and recovery

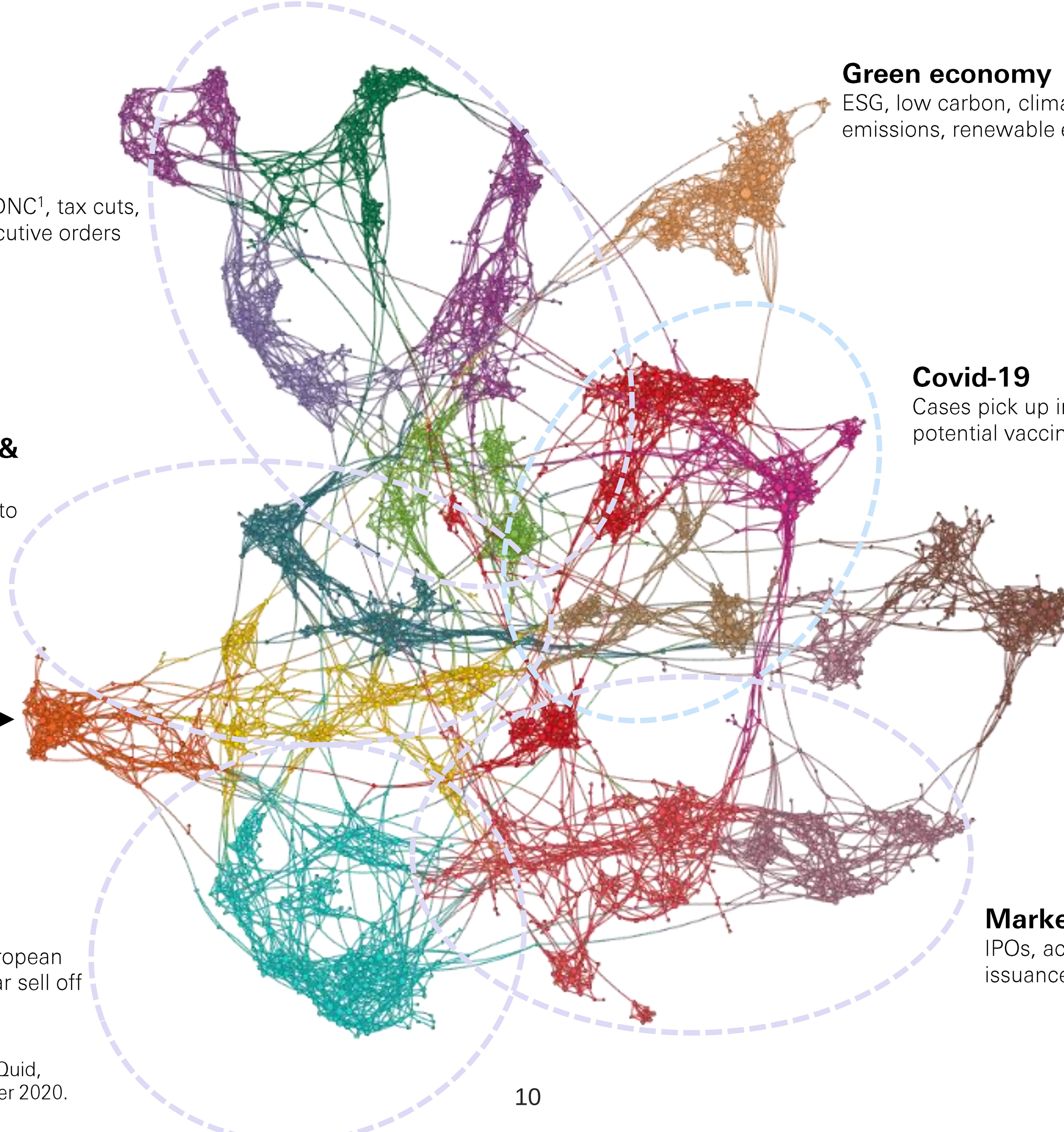
Easy Fed + wider deficits + positive macro surprises = DXY under pressure!

Gold (the anti dollar) is highly correlated with US real yields

Past performance is not a reliable indicator of future performance
Source: Bloomberg, HSBC Global Asset Management, September 2020.

What's everyone talking about?

Tracking investor sentiment with big data & AI



[1] Democratic National Committee. Source: Quid, HSBC Global Asset Management, September 2020.

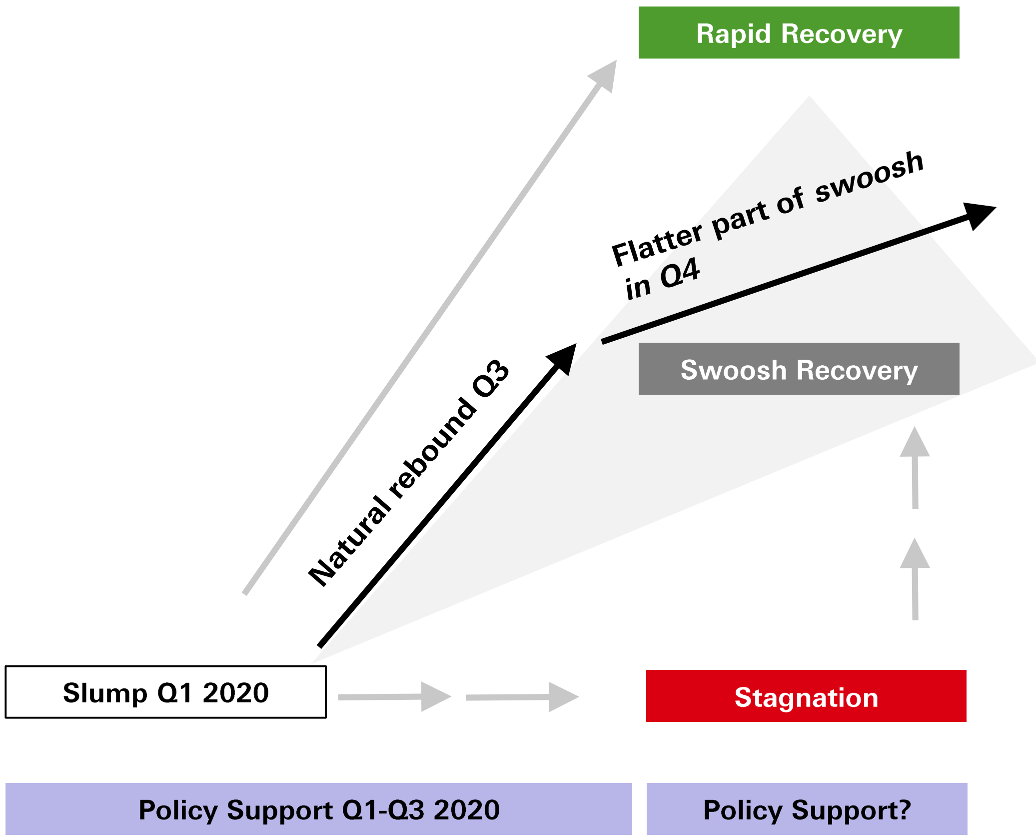
Part 2: Swoosh-onomics

HSBC Global Asset Management

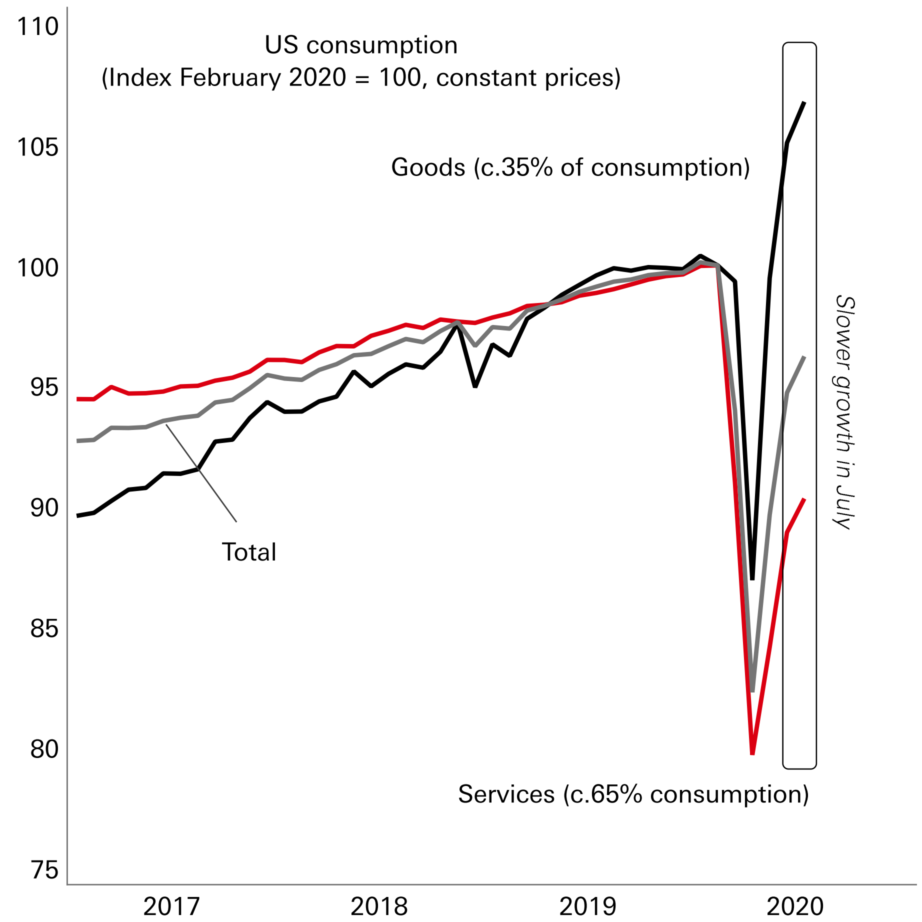
Swoosh-onomics

We are entering the flatter part of the swoosh

"Swoosh recovery" versus other "possible realities"



A key reason is the "K-recovery" in goods and services



Source: HSBC Global Asset Management, Macrobond, September 2020

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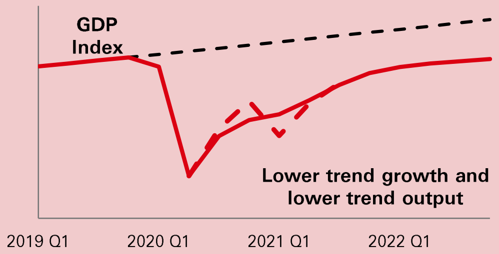
What is the "swoosh"?

It is our baseline macro scenario

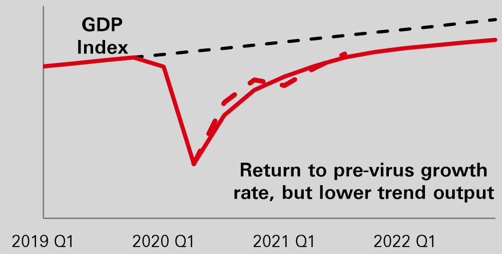
Stagnation	Recovery	Rapid recovery

All scenarios see Q3 bounce in activity

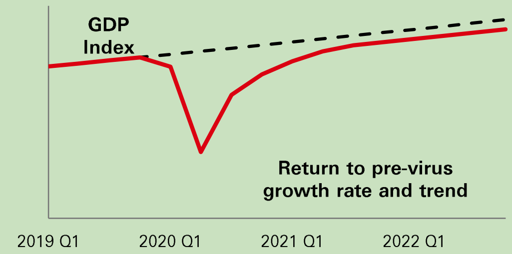
Stagnation: Slow and partial recovery



Recovery: "Swoosh"



Rapid recovery: Partial V



Assumptions

Stagnation:

- **Vaccine:** Start of 2022
- **Renewed outbreaks:** Widespread second wave
- **Restrictions:** Widespread social distancing and re-introduction of more draconian restrictions as second wave emerges. **Completely removed from Q4 2021**
- **Support policies:** Drawn out pandemic met with Insufficient further policy support delivered in late 2020/H1 2021 "stimulus fatigue" sets in. Economy not strong enough to faze out support measures for foreseeable future

Recovery:

- **Vaccine:** Mid-2021
- **Renewed outbreaks:** Isolated second waves
- **Restrictions:** Widespread social distancing, limited re-introduction of local restrictions. **Completely removed by mid-2021**
- **Support policies:** Adequate further policy stimulus delivered in late 2020/early 2021 while pandemic persists. Limited withdrawal of support from late 2021

Rapid recovery:

- **Vaccine:** Start of 2021
- **Renewed outbreaks:** Minimal
- **Restrictions:** Limited social distancing through Q4 2020, **completely removed from start of 2021**
- **Support policies:** Quick end to pandemic allows fiscal support and emergency central bank measures to be withdrawn during 2021 without jeopardising recovery

Macro outcomes

Stagnation:

- **Supply:** Significant reduction in the level of potential output and its growth rate
- **Demand:** Modest recovery after a solid increase in GDP in Q3. Confidence/demand held back by financial stress and concerns about potential for renewed suppression measures. Activity remains well below its previous trend

Recovery:

- **Supply:** Persistent loss of potential output relative to pre-virus trend, but pre-virus trend growth rate is broadly maintained
- **Demand:** Recovery continues at solid pace after robust growth in Q3 with confidence/demand returning gradually. Economy largely reverts to its new, lower, trend in by mid-2022

Rapid recovery:

- **Supply:** Some persistent loss of potential output relative to pre-virus trend, but pre-virus trend growth rate is fully maintained
- **Demand**: Recovery continues at robust pace after strong growth in Q3 with confidence/demand returning quickly. Economy largely reverts to its new, lower, trend in H2 2021

Note: Dashed red lines in charts indicate the scenarios are consistent with different paths for activity; the scenarios describe the broad trends. Source: HSBC Global Asset Management. Any views expressed were held at the time of preparation and are subject to change without notice. While any forecast, projection or target where provided is indicative only and not guaranteed in any way. HSBC Global Asset Management (UK) Limited accepts no liability for any failure to meet such forecast, projection or target.

Western economy scenarios

	Pros	Cons	Stagnation (25%)	Recovery (60%)	Rapid recovery (15%)
US	• Fiscal package more powerful than initially thought • Labour market and consumer spending recovering well • Fall in profits less pronounced than might have been expected given record contraction in GDP • Flexible/innovative corporate sector	▪ Questions regarding effectiveness of authorities' response to further waves of virus ▪ Political uncertainty/election risk could further delay additional fiscal support ▪ Health system inequalities	***20%*** 25%	***60%*** 65%	***20%*** *10%*
Eurozone	▪ Strong bounce in mobility and some hard data in major economies ▪ Germany and France extended labour market support schemes ▪ Strong health systems	▪ No-deal Brexit increasingly likely ▪ Infection rates have picked up markedly in some countries ▪ Institutional constraints on ECB	***20%*** 25%	***70%*** *65%*	**10%**
UK	▪ Mobility now improving more quickly to levels comparable with other European economies ▪ Infection rate now lower than in other parts of Europe with less evidence of second wave ▪ Joined up monetary-fiscal policy	▪ No-deal Brexit increasingly likely ▪ Tax hikes are being muted by the Treasury ▪ Question marks over effectiveness of public heath system/administration	**30%**	**60%**	**10%**

Policy push and consumer spending power suggests stagnation less of a risk than thought and greater potential for stronger recovery

Strong bounce in activity plus more policy support reduces downside risk

No change required – UK risks more skewed to downside than US or eurozone

Source: HSBC Global Asset Management, September 2020.

Asia economy scenarios

	Pros	Cons	Stagnation (25%)	Recovery (60%)	Rapid recovery (15%)
DM Asia (ex Japan)	▪ Success containing first wave of virus ▪ Initial lockdowns and hit to GDP far less pronounced than elsewhere ▪ Strong testing/tracking capabilities ▪ Sufficient fiscal policy space and sound external positions entering the pandemic ▪ Increasing policy focus on promoting long-term growth in the post-COVID era	▪ High exposure to external demand ▪ Geopolitical tensions and spillover of US-China frictions especially in technology ▪ Normalisation of international tourism will likely be delayed (HK, SG) ▪ High household/private sector leverage and associated financial risk concern	**10%**	***65%*** 55%	***25%*** 35%
China	▪ Economy already showing clear signs of recovery ▪ Policy focus on improving economic resilience via continuing reforms to boost productivity growth, enhance social protection and strengthen self-sufficiency while deepening opening up ▪ Virus appears to have been suppressed and economic activity has gradually returned to normalcy	▪ More able to influence supply than demand: domestic private investment and consumption lags behind ▪ Geopolitical tensions; risk of gradual US-China economic disengagement ▪ The growth model based on domestic consumption and indigenous technology development faces challenges ▪ Corporate debt likely to rise further from an elevated level; credit default concerns	**10%**	**55%**	**35%**
EM Asia	▪ Recovery of overall mobility amid easing lockdown measures; economies playing catchup after lagging in the recovery ▪ Many countries continue pressing ahead with structural reforms ▪ Potential beneficiaries from supply-chain realignments (e.g. the "China+1" strategy and/or regionalisation)	▪ Significant initial impact on activity and higher risk of lasting damage from inadequate virus suppression ▪ Infection rates still rising quickly in some ▪ Weaker institutions and public finances than in developed Asian economies ▪ High levels of inequality, low levels of social protection and a large informal sector raise vulnerabilities in some	**30%**	**60%**	**10%**

Latest cluster infections, albeit largely under control, cloud the outlook and could slow nornalisation of private consumption at a time when incremental gov't policy support is fading

Source: HSBC Global Asset Management, June 2020.

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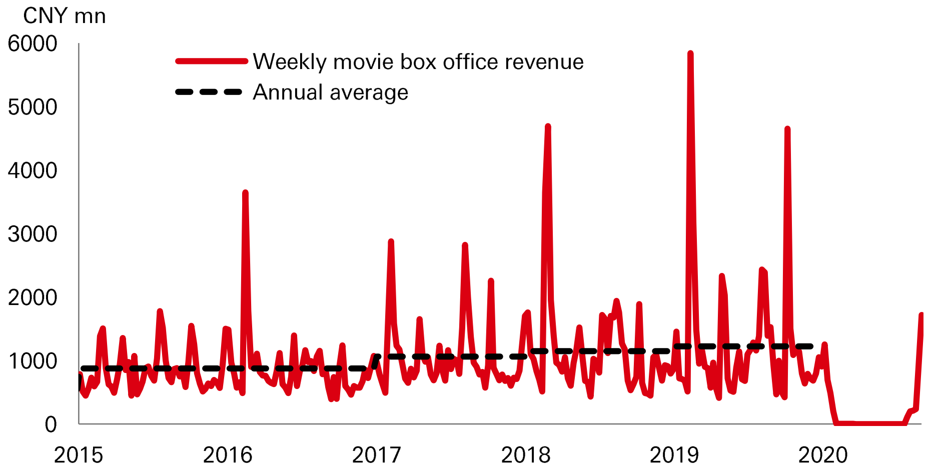
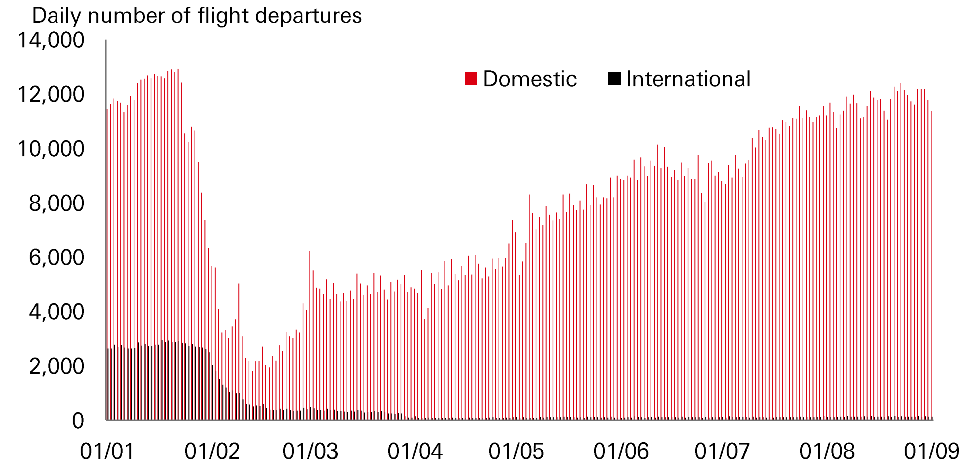
Stronger recovery in China

Service sector improvements and the domestic pivot

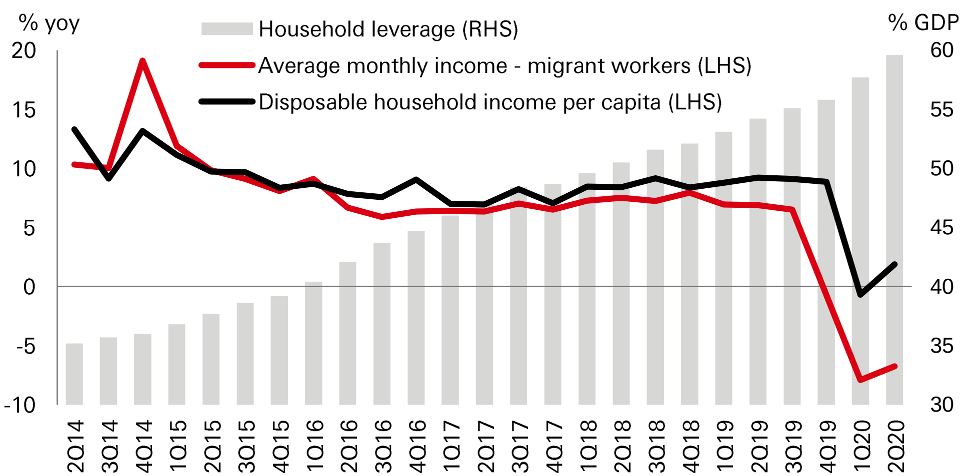
Movie box office revenue rebounded quickly



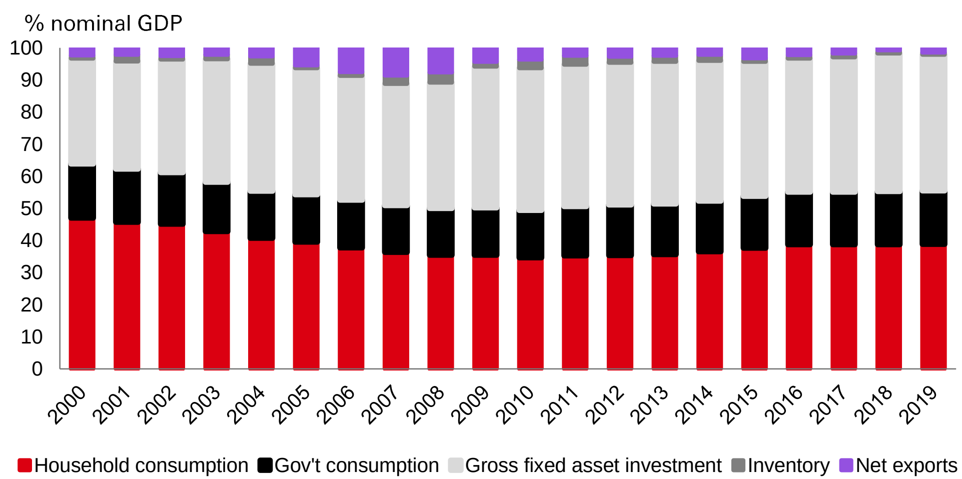
Domestic tourism/air traffic back to near-pre-pandemic levels



Labour income disruptions; household leverage concerns



Rebalancing towards household consumption is slow

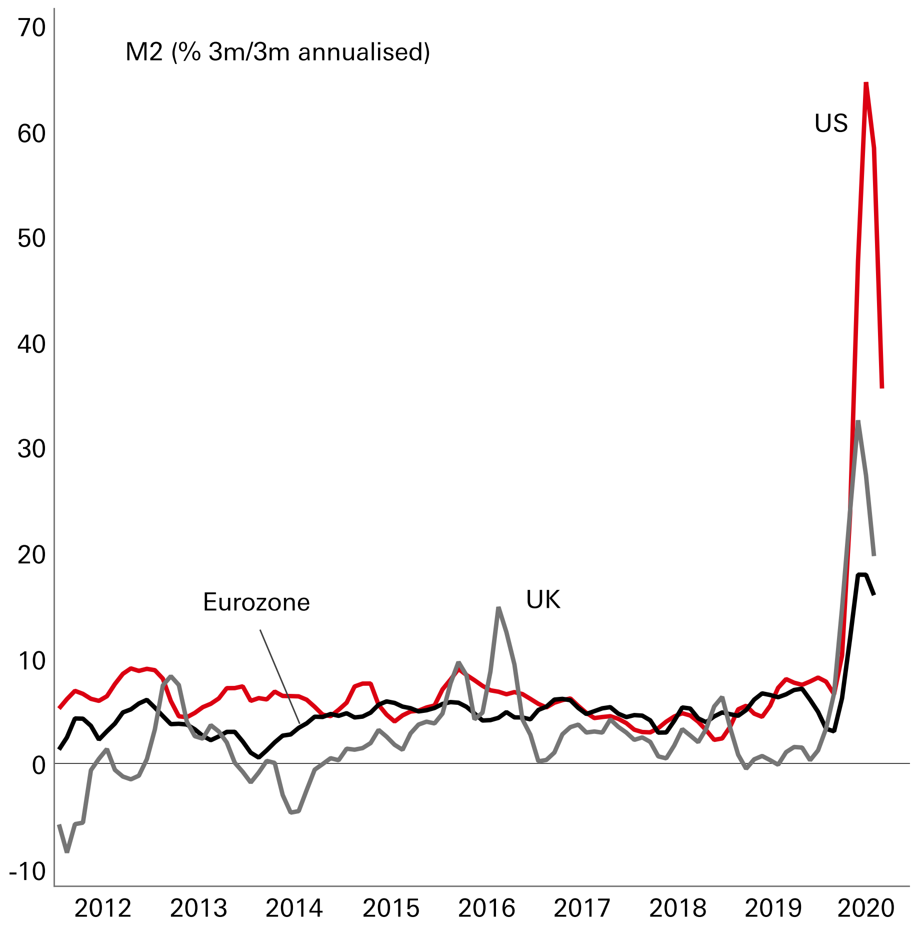


Source: Bloomberg, WIND, CEIC, HSBC Global Asset Management, August 2020.

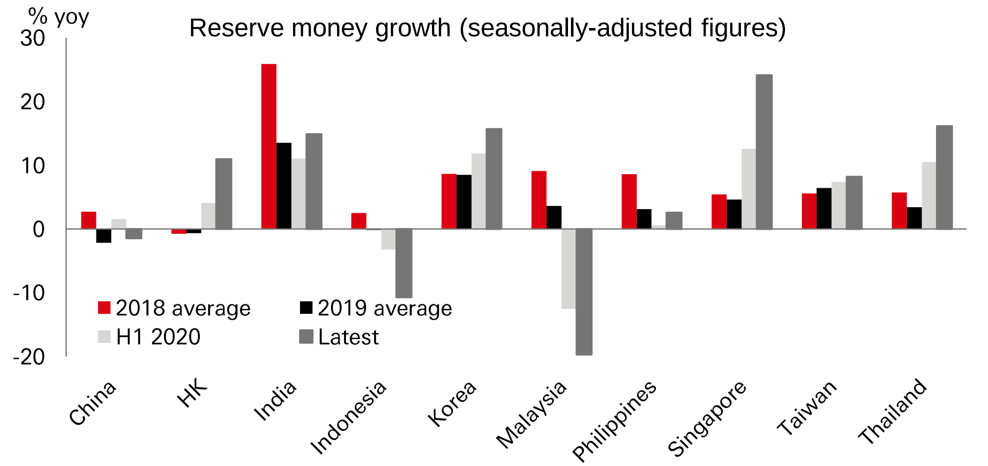
What happens to inflation in the swoosh recovery?

Money supply has surged … but we don't believe it is an early warning signal

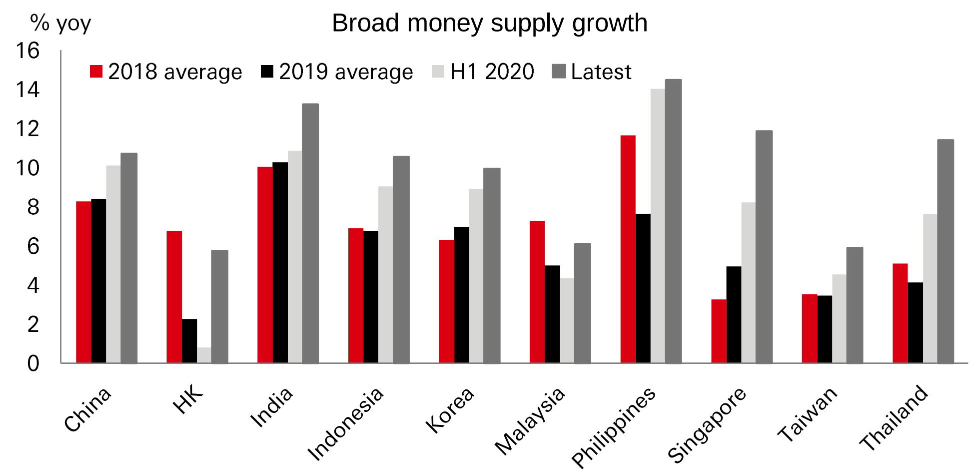
Money growth has surged in US and Europe



No material acceleration in reserve money growth in EM Asia



Asia money supply growth, but much lower than DMs

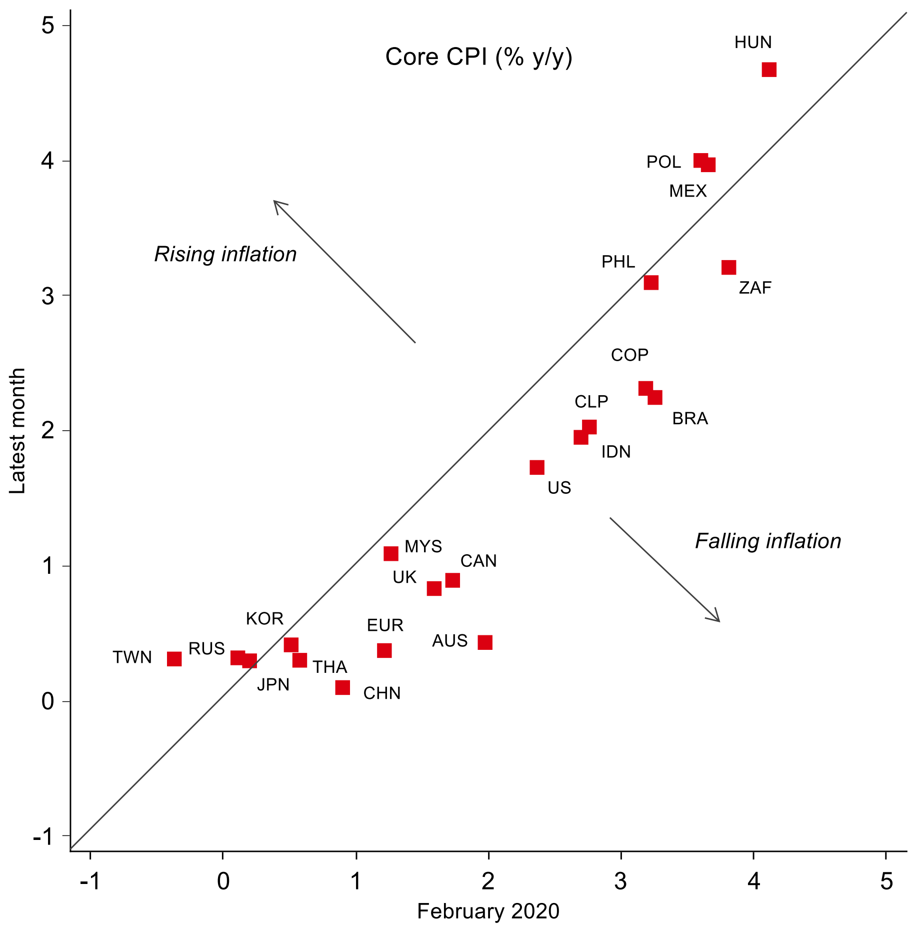


Past performance is not a reliable indicator of future performance. Source: HSBC Global Asset Management, Macrobond, September 2020.

What happens to inflation in a swoosh recovery?

Analysis of inflation drivers suggests inflation is set to remain low

Core inflation has fallen in most economies



"Driver variables" suggest inflation is set to remain low

Driver variable 1: long-run — Inflation expectations; Inertia & long run trends

Driver variable 2: medium-term — Flat Phillips Curve; Demand Drivers (cycle, policy); Supply Drivers (globalisation)

Driver variable 3: short-term — FX; Commodities

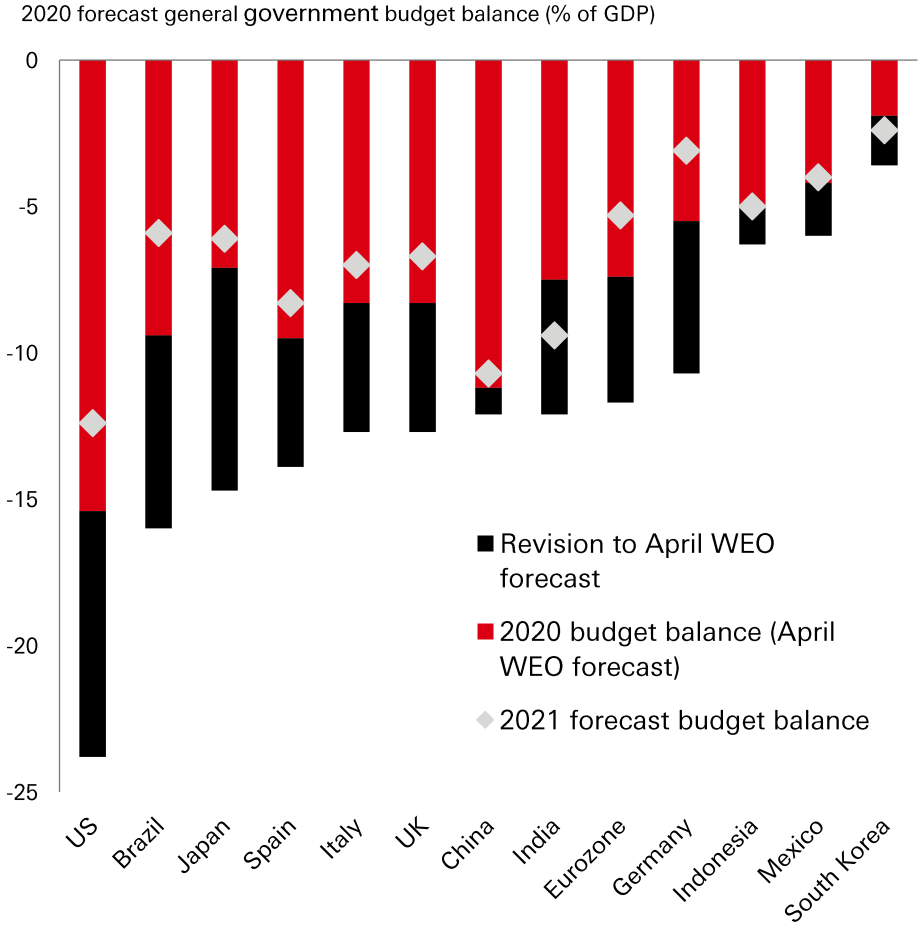
Higher inflation on a sustained basis requires "Demand > Supply" for a prolonged period to raise cyclical inflation, which then lifts inflation expectations

Source: HSBC Global Asset Management, Macrobond, September 2020.

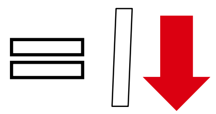
Macro uncertainty #1: fiscal policy error

Significant risk of early withdrawal of policy stimulus

Budget deficits much bigger than initial estimates



Options for dealing with high debt and deficits

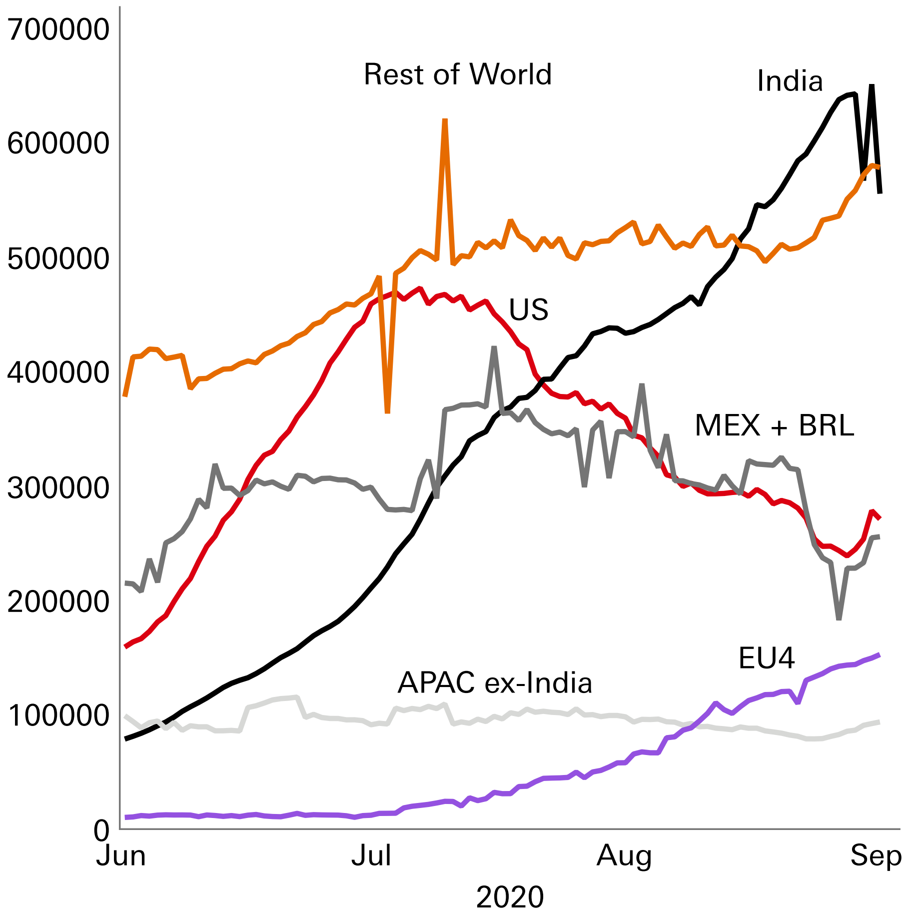
Method	Description	Likely medium-run inflation impact
Austerity	Cut public spending or raise taxation to reduce new borrowing or accumulate public savings	
Financial repression	Monetary and fiscal policies that keep nominal interest rates low and real interest rates negative	
Policy coordination	The aim is to use fiscal and monetary policy to boost demand and eliminate 'output-gap'. Higher medium-run GDP level can improve debt sustainability	
Explicit default or restructuring	Used when short-term interest burden is politically unsustainable in order to create a more sustainable repayment path	?

Source: HSBC Global Asset Management, IMF, September 2020

Macro uncertainty #2: Covid control

Rising cases versus hope for a vaccine

New Covid-19 cases



Vaccine tracker

Phase 1	Phase 2	Phase 3	Limited	Approved
Vaccines testing safety and dosage	*Vaccines in expanded safety trails*	*Vaccines in large-scale efficacy tests*	*Vaccines approved for early or limited use*	*Vaccines approved for full use*
25	14	9	3	0
*41% chance of reaching phase 2**	*34% chance of reaching phase 3**	*60% chance of being approved**	**"Superforcasters" expect a vaccine to become widely available** no later than Q1 2021**	

* Wong, Siah, Lo (2019), Estimation of clinical trial success rates and related parameters

** Good Judgment's Professional Superforecasters expect a 65% chance of a vaccine becoming widely available in the United States between October 2020 and March 2021

Source: HSBC Global Asset Management, Macrobond, September 2020.

Macro uncertainty #3: politics

US elections: the make-up of Congress is a critical factor

Potential equity market impact

01 Biden wins, Democrats take control of the House and Senate

+
- Full control of Congress (House and Senate) allows easier implementation of fiscal stimulus
- Democrats have ambitious plans to boost infrastructure spending, focusing on green projects
- Income redistribution supports consumer spending

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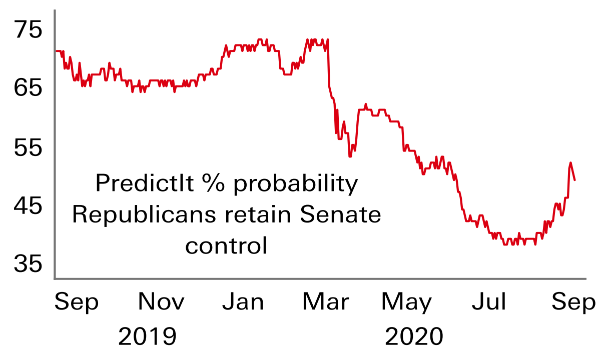
- Tougher environment for corporates via (i) higher corporate tax rates/minimum wage, and (ii) potentially stricter regulatory/antitrust regime for banks, tech, and oil & gas sectors

02 Biden wins, Republicans retain Senate



Divided Congress impedes implementation of new legislation

+ Unwinding of risks related to Biden's tax/regulatory agenda

- Gridlock over fiscal stimulus, and potential for tougher regulations (via executive orders)

03 Status quo (Trump wins, Democrats retain House, Republicans retain Senate)

Divided Congress impedes implementation of new legislation

+ Unwinding of risks related to Biden's tax/regulatory agenda

-
- Gridlock over fiscal stimulus
- Unilateral action against China weighs on investor sentiment

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Macro uncertainty #3: politics

Chances of a “no-deal” Brexit have risen

Key dates

15 October: The European Council Summit. PM says UK will “walk away” if deal has not been done by this point. Emergency summits on other dates are possible

26 November: Deadline for European parliament to receive legal text in order to pass legislation in time

31 December: Transition period ends at 11pm GMT

Sticking points

Level playing field: EU wants UK to guarantee it will not undercut EU rules (e.g. on state aid, labour standards, environmental standards, taxation) for competitive advantage

Fisheries: Disagreement over EU access to UK waters

Northern Ireland: UK insisting no customs border emerges between mainland UK and NI. EU wants to avoid hard border between Republic of Ireland and NI

UK Internal Market Bill

Introduced to avoid emergence of new barriers to business arising within the UK after the transition period ends

UK government acknowledges bill breaks international law in “very specific and limited way”

EU has threatened legal action if problematic elements of bill are not removed by end of September

Sterling close to record low versus euro…

Past performance is not a reliable indicator of future performance.

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Part 3: Asset class views and the "great rebalancing"

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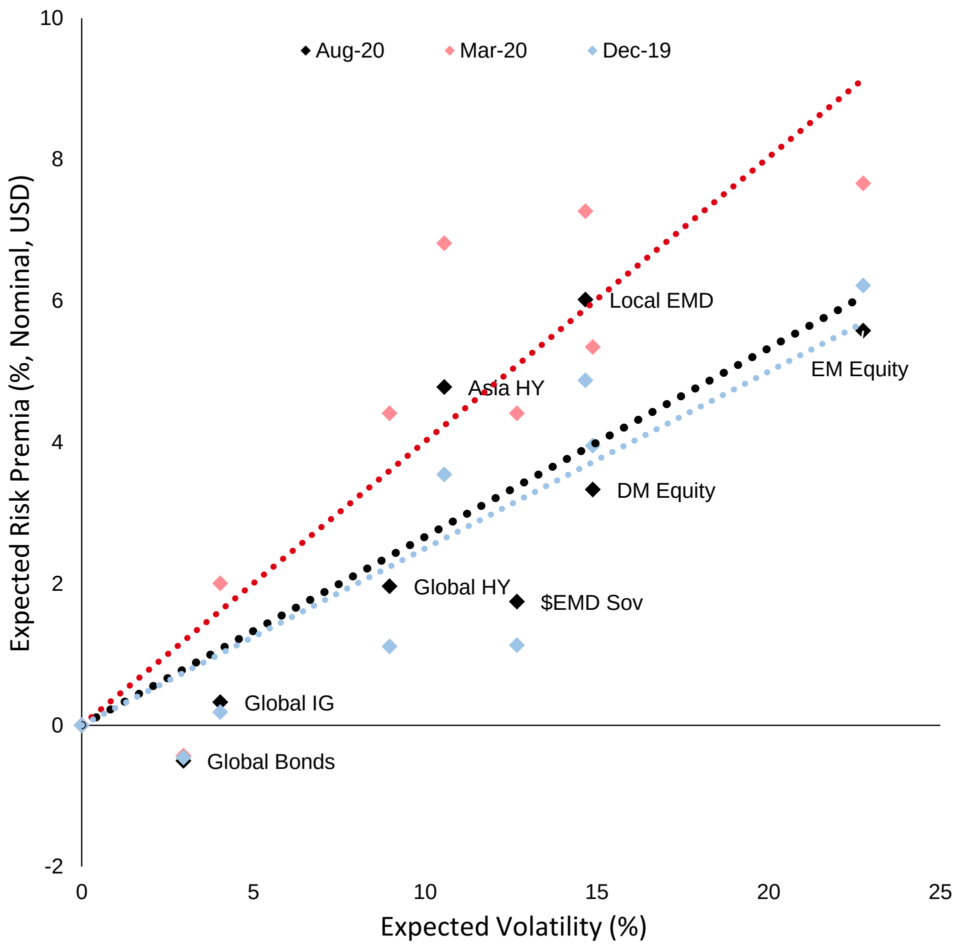
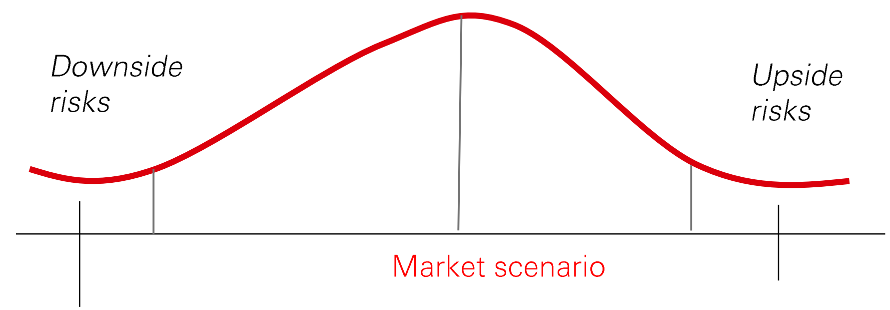
Market scenario for Q4

Flatter swoosh + flatter CML = a coupon-clipping environment in markets

A flatter capital market line…



… And a range-bound scenario for markets



Key uncertainties

- **Fiscal policy error (premature withdrawal of policy support)**
- **US political uncertainty intensifies**
- **Covid outbreaks in back-to-school phase**
- US-China tensions escalate further
- Swoosh flattens off more than we expect, negative surprises on macro data

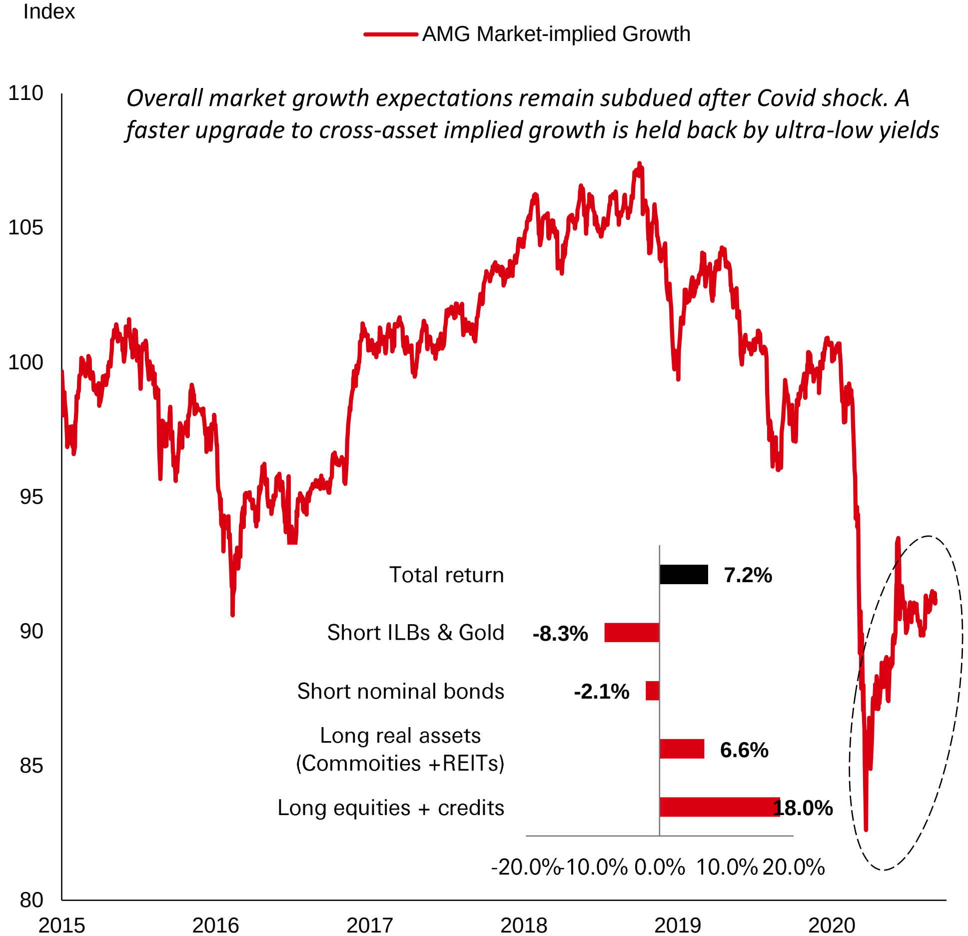
- Momentum strengthening (FOMO, mass retail participation, more leverage)
- Further commitment from policy makers to support the economy and avoid spillovers
- Better news on Covid (widespread adoption of vaccine *some real rate risk!)
- Positive surprises on corporate data – shock on profits is lower than feared

Past performance is not a reliable indicator of future performance. Source: HSBC Global Asset Management, September 2020. Any views expressed were held at the time of preparation and are subject to change without notice. While any forecast, projection or target where provided is indicative only and not guaranteed in any way. HSBC Global Asset Management (UK) Limited accepts no liability for any failure to meet such forecast, projection or target.

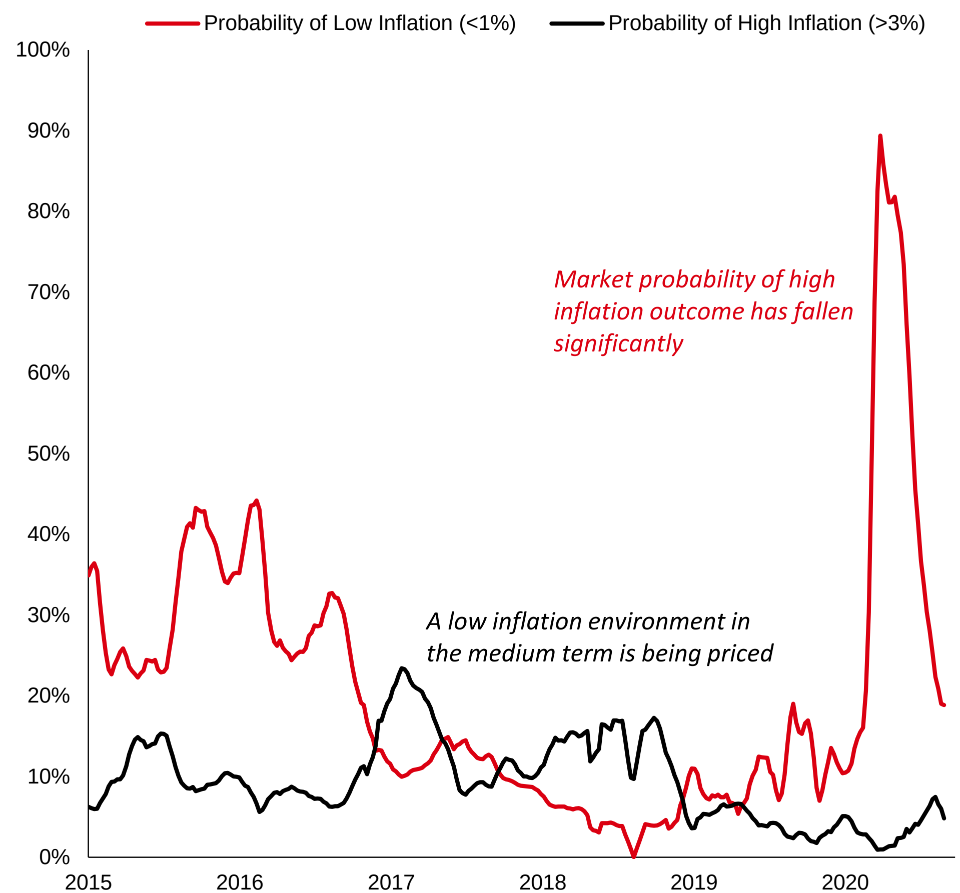
What macro scenario is being priced-into markets?

Market prices low economic growth and no inflation

"Market-implied Growth" remains low
(performance of portfolio long sensitive and short defensive asset classes)



Market-implied inflation very low
(5yr US inflation distribution from inflation options)



Past performance is not a reliable indicator of future performance. This indicator is the market performance of an equal volatility long-short portfolio of growth asset classes against defensive asset classes (implied growth index). Source: Bloomberg, HSBC Global Asset Management, September 2020. Any views expressed were held at the time of preparation and are subject to change without notice. While any forecast, projection or target where provided is indicative only and not guaranteed in any way. HSBC Global Asset Management (UK) Limited accepts no liability for any failure to meet such forecast, projection or target.

What macro scenario is priced-into global equities?

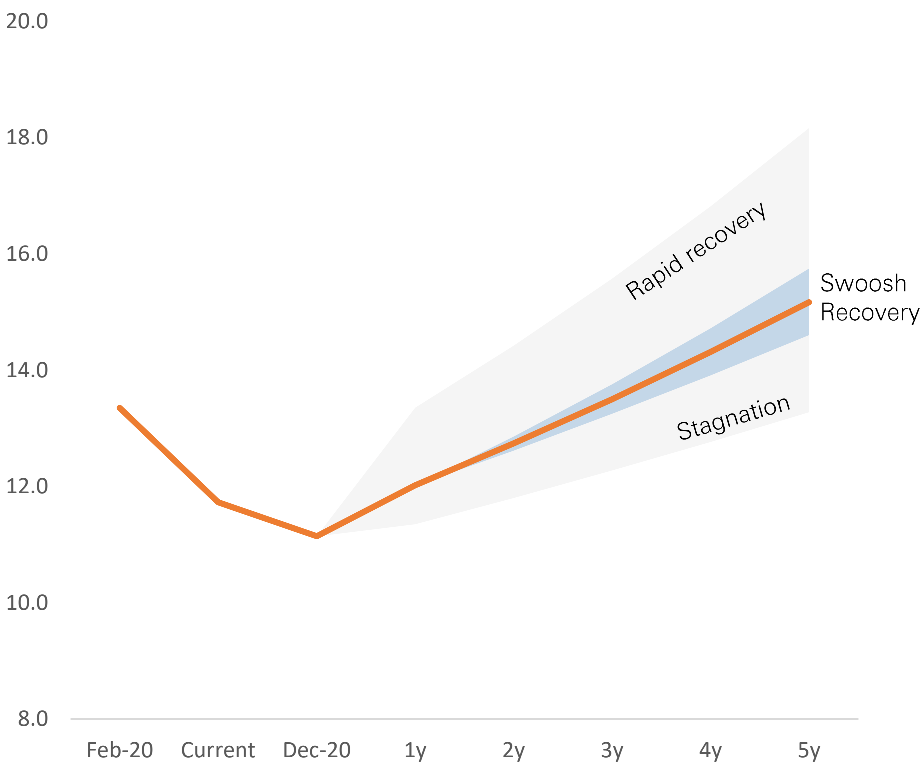
Scenario analysis implies the market discounts a "swoosh-plus" outlook

Looking at the type of dividend growth scenario that is consistent with a fair value estimate of global equities

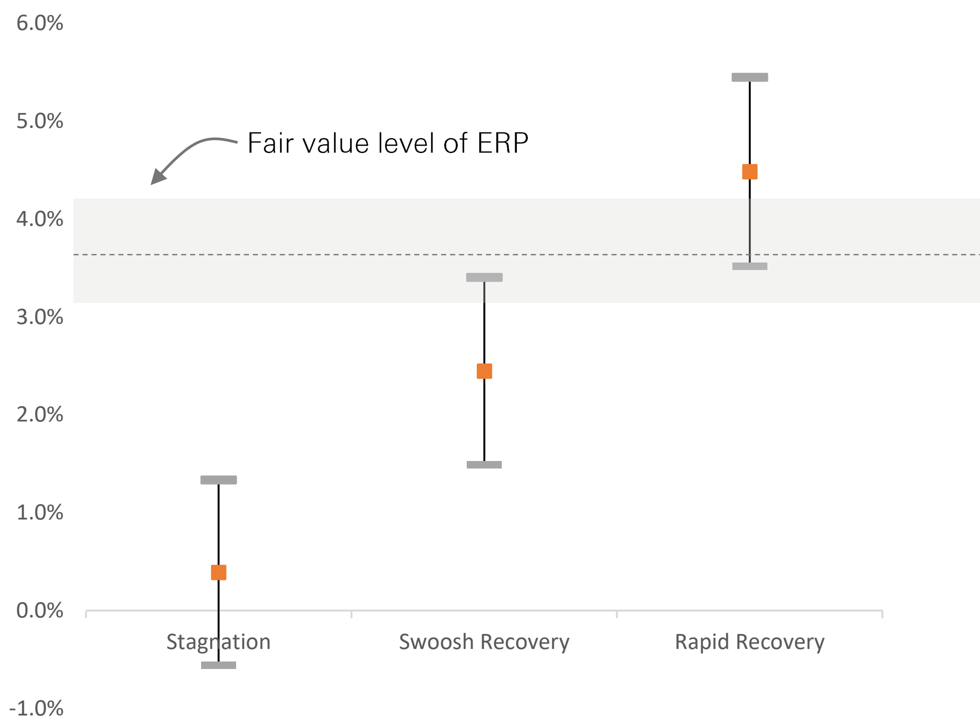
Scenario assumptions	Stagnation	Swoosh Recovery	Rapid Recovery
1y ahead DPS level	-5% below pre-pandemic peak	Pre-pandemic peak is reached	+5% pre-pandemic peak
Growth in years 2-5	5%	6%	7%

Model assumptions	
Risk free rate (UST 30yr yield)	1.5%
Terminal growth rate	3.0%
Current dividend yield	2.0%
Horizon	5 years

Range of MSCI ACWI dividend per share paths



Implied global equities ERP under each dividend scenario



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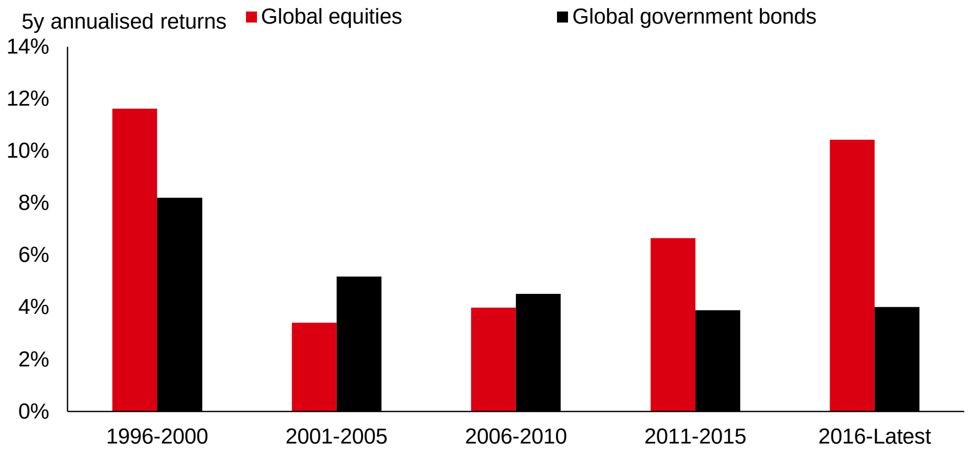
Time for a great rebalance

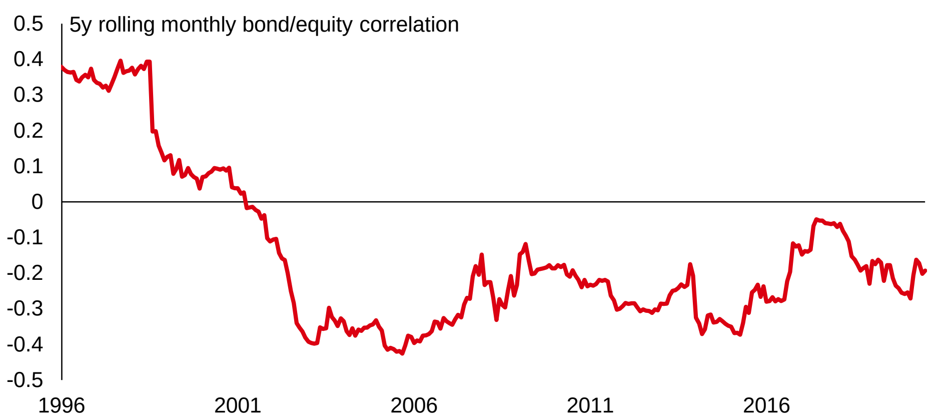
Diversification benefits of bonds are set to deteriorate

Government bonds have been the “holy grail”

1. Positive long-run returns



2. With negative correlations with equities



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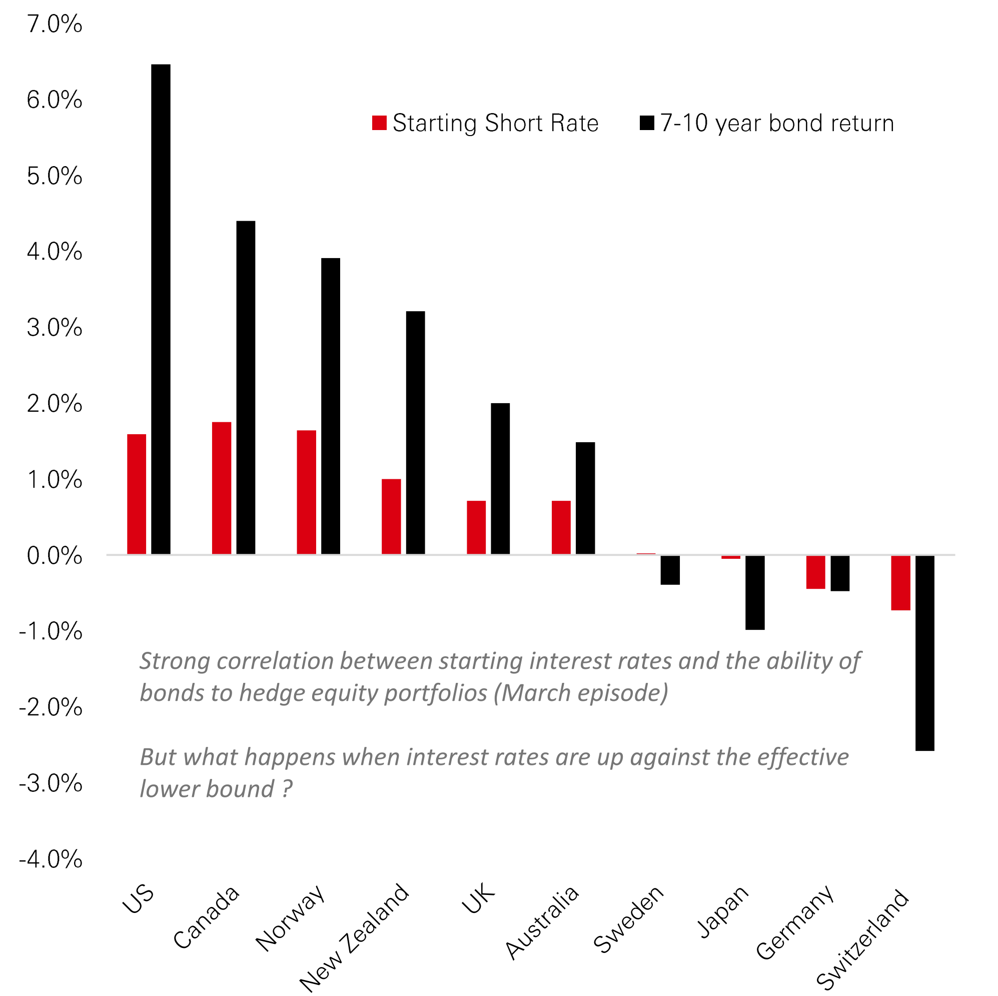
…But zero/negative rates has reduced bond hedging properties!



Source: IND, Bloomberg. Short term levels as of 31/01/2020. 7-10 Year bond return from 19-Feb-20 to 23-Mar-20.

Market-implied risk premia

The capital market line has flattened after the “rally in everything”

HSBC Global Asset Management’s risk premia calculations (%)

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Appendix: political risk returns

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US: Likely outcome scenarios

Makeup of Congress critical factor

Potential equity market impact

01 Biden wins, Democrats take control of the House and Senate

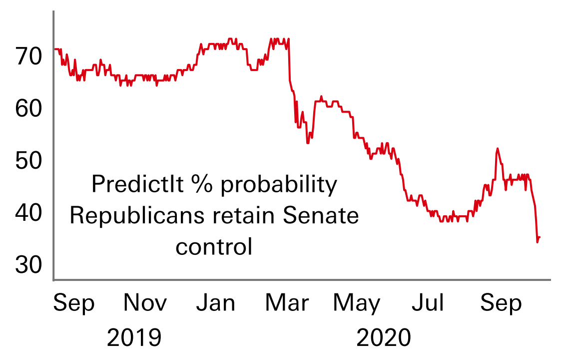
+

- Full control of Congress = easier implementation of fiscal stimulus
- Ambitious infrastructure spending plans (green projects)
- Income redistribution supports consumer spending
- Multilateral approach to China

-

- Tougher environment for corporates via (i) higher corporate tax rates/minimum wage, and (ii) potentially stricter regulatory/antitrust regime for big tech, oil & gas, and banking sectors

02 Biden wins, Republicans retain Senate



Divided Congress impedes implementation of new legislation

+ Unwinding of risks related to Biden's tax/regulatory agenda

- Uncertainty over fiscal stimulus, and potential for tougher regulations (via executive orders)

03 Status quo (Trump wins, Democrats retain House, Republicans retain Senate)

Divided Congress impedes implementation of new legislation

+ Unwinding of risks related to Biden's tax/regulatory agenda

-

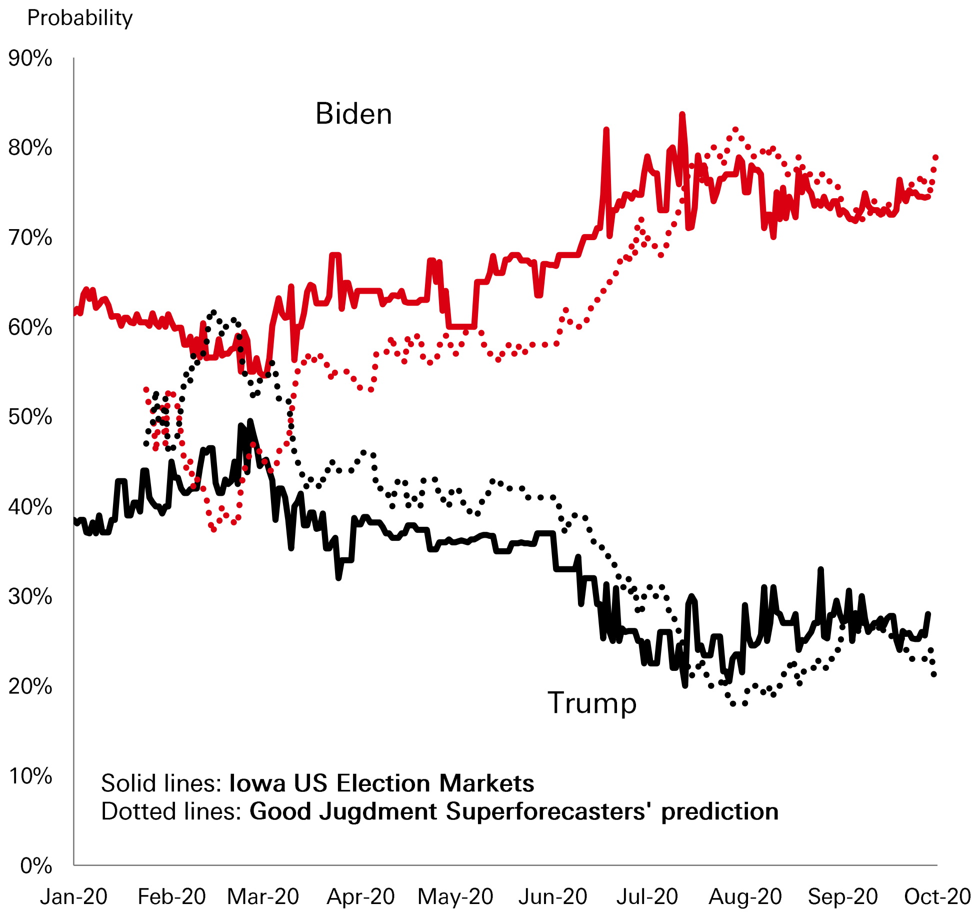
- Uncertainty over fiscal stimulus
- Unilateral action against China

Source: HSBC Global Asset Management, Macrobond, October 2020.

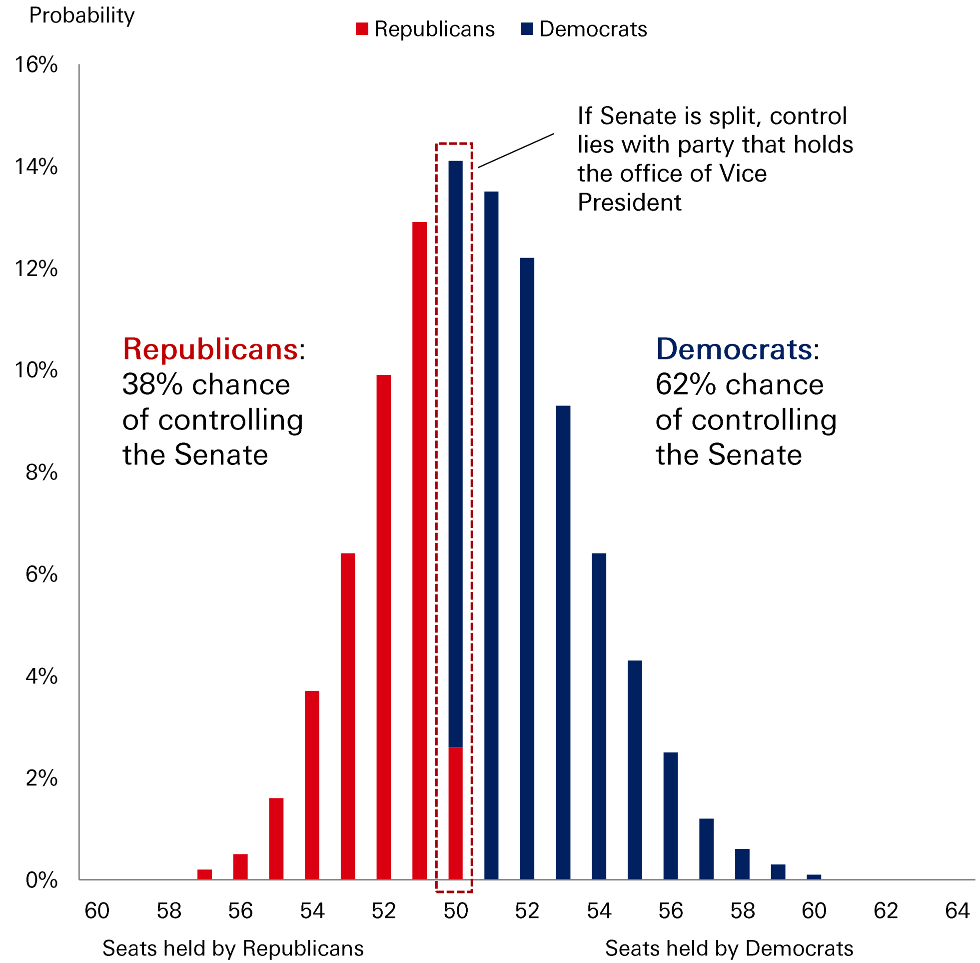
US: Biden is still favourite to win

Democrats also remain in the lead in race for the Senate

Superforecasters and prediction markets favour Biden



Democrats on track to win 3+ Rep. Senate seats

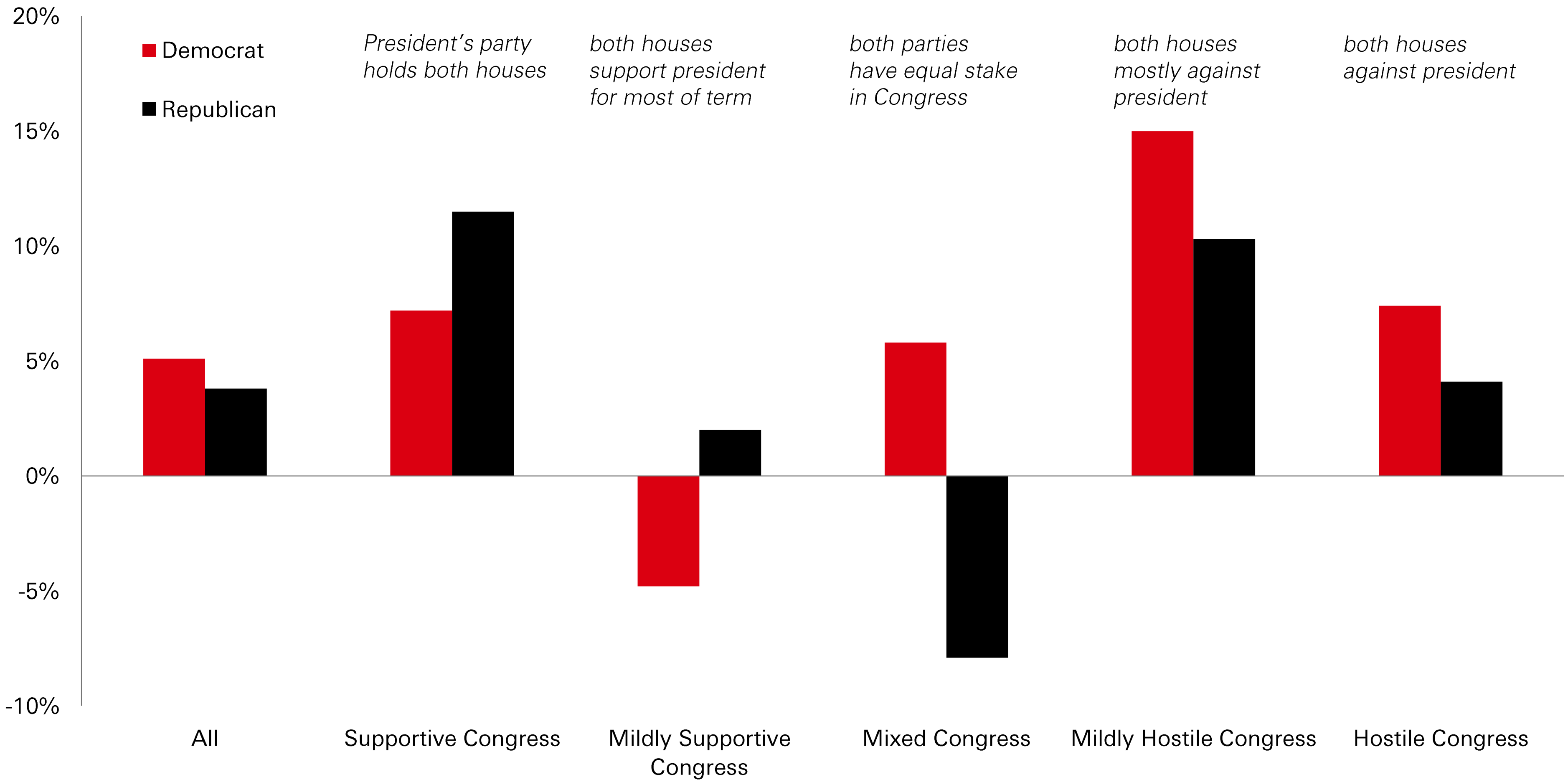


Source: HSBC Global Asset Management, Iowa Election Markets, Real Clear Politics, Good Judgment Project. Data as at 30 September. If each party holds 50 seats in the Senate, control of the Senate passes to the party that holds the office of the Vice President. Any views expressed were held at the time of preparation and are subject to change without notice. While any forecast, projection or target where provided is indicative only and not guaranteed in any way. HSBC Global Asset Management (UK) Limited accepts no liability for any failure to meet such forecast, projection or target.

US: Evidence from history

Democrat presidents are traditionally good for markets, although depends on Congress

US equity gains during US presidencies since 1853 (% annualised)



Source: Invesco, HSBC Global Asset Management, Robert Shiller, Bloomberg, 270towin, Global Financial Data, Refinitiv Datastream, Wikipedia, October 2020

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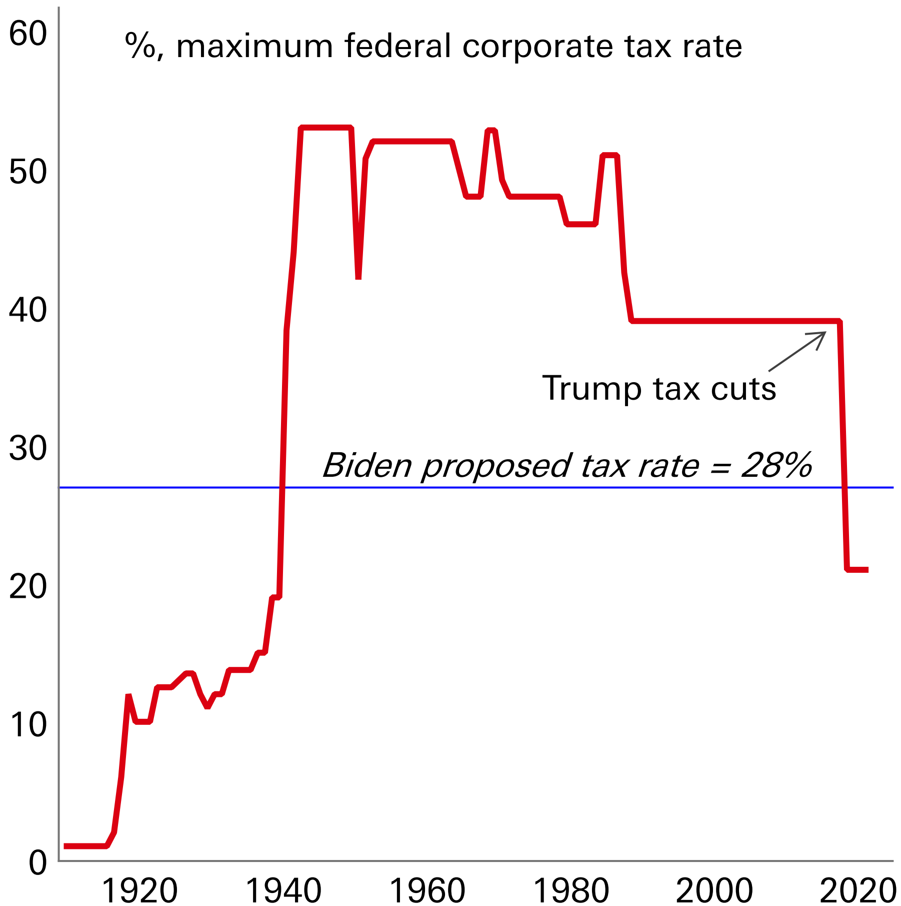
US: How market unfriendly is Biden?

Little to suggest policies will seriously agitate investors

Biden tax hike only partially unwinds Trump's tax cuts



Trump & Biden's approach to big tech is similar

Big tech

Both candidates agree on (i) greater regulatory oversight of big tech companies and antitrust investigations; (ii) repeal of Section 230 of 1996 Communications Decency Act (provides legal immunity for posted content and moderation efforts)

However, Republicans focus on anti-conservative bias, while Democrats on market abuse and workers rights ("gig economy"). Ultimately, this may limit extent of bipartisan efforts

Oil & gas

Biden has promised to halt new federal drilling permits. But impact potentially muted as there is large inventory of drilled-but-uncompleted wells and drillers can shift to private acreage

Overall, anti-fossil fuel measures unlikely to top Biden's initial agenda when sector is struggling. Longer-term, Biden's USD2 trn clean energy investment plan is a source of new jobs and investment opportunities

Banks

Biden and Harris have expressed support for a financial transaction tax, and reinstating Dodd-Frank rules

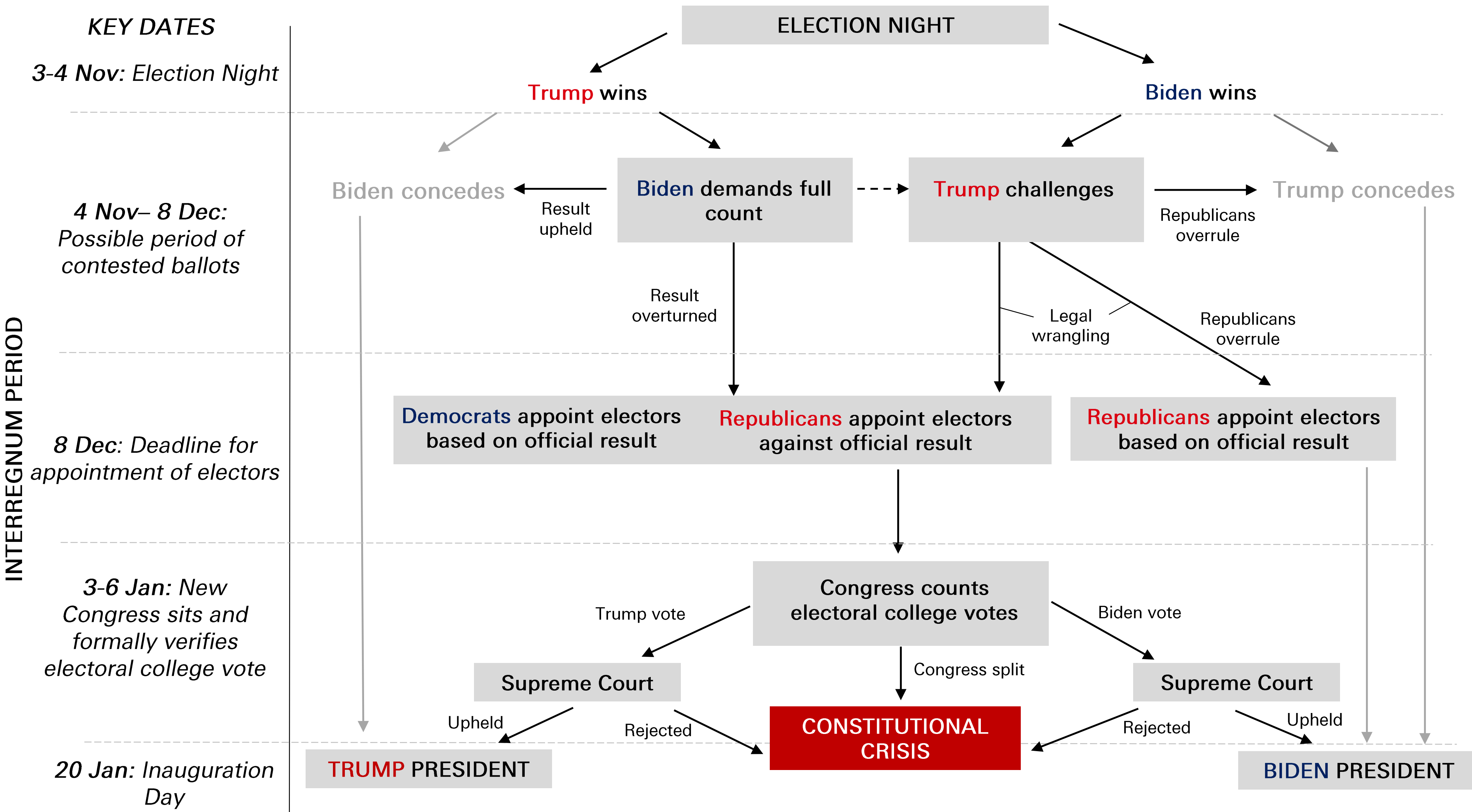
Elizabeth Warren as Treasury Secretary could see more significant regulation, including 21st Century Glass-Steagall Act (separation of investment and retail banking)

But Biden social safety net could help subprime and auto lenders. Path of interest rates and growth more important to sector

Source: HSBC Global Asset Management, Macrobond, October 2020.

US: What could a contested US election look like?

Uncertainty may rise markedly between Election Day and Inauguration Day



Source: Bloomberg, HSBC Global Asset Management, October 2020.

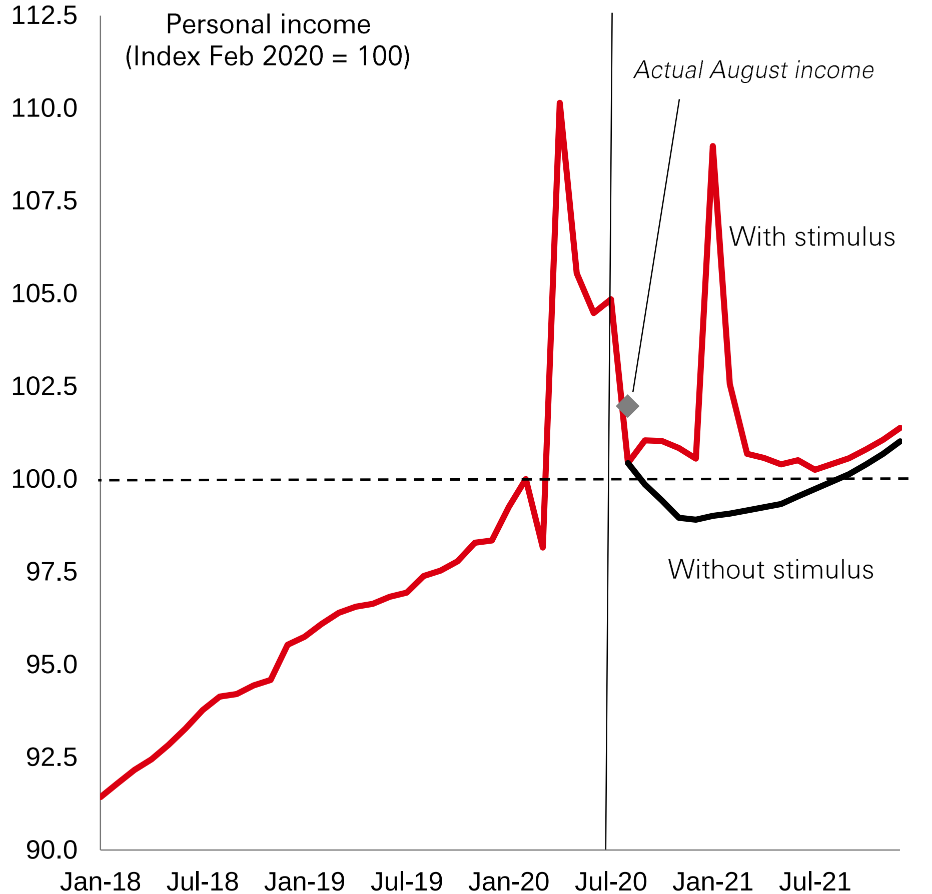
US: Risks to our central scenario

Drawn-out contested election result is the key risk…

Risks broadly balanced – if election runs to timetable…

Policy & date	Assumption		Risks
Unemployment insurance			
Sep-Dec 2020	USD 400 p/w	↓	Unlikely if no agreement before election
Jan-Jun 2021	USD 525 p/w	↓	Delayed if election contested
		↓	Lower under HEALS-type deal
		↑	USD 600 pw under latest proposals/Democrat clean sweep
Jul-Dec 2021	USD 300 p/w	↓	Likely to be lower under Republican administration
		↑	May be higher under Democrat administration
Economic impact payments			
Jan 2021	USD 720 pp (60% of first payment)	↓	Delayed if election contested
		↑	HEALS and latest proposals are for USD 1200 pp

Direct impact on income of failure to agree stimulus



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