March 2020

Canada Outlook: Special Edition

Coronavirus update: Policymakers support markets

Key takeaways

- March 3: US Federal Reserve cuts the federal funds rate by 50 basis points to 1%-1.25%
- The Fed retains a deep toolkit to address the fallout from the coronavirus
- March 3: G7 pledges to use "all appropriate policy tools" to boost growth
- March 4: Bank of Canada cuts the overnight rate target by 50 basis points to 1.25%
- Volatility will likely remain a driving factor in the days and weeks ahead, but the surge in global markets in early March is cause for cautious optimism
- US consumer fundamentals look solid, and US consumers are the biggest drivers of global economic growth
- HSBC is well positioned in this volatile environment

Swift action from policymakers aims to calm markets

Interest rate cuts from the Bank of Canada and the US Federal Reserve (Fed), together with a G7 pledge to use "all appropriate policy tools" to boost growth, show policymakers are taking decisive action to support markets in the fight against the novel coronavirus (COVID-19).

China is also deploying vast resources to contain the coronavirus. We are confident that once the virus is contained, China will efficiently implement promised measures to restore robust economic growth. There are also expectations that policymakers outside China will not shy away from using government spending to keep the global economy on track.

The Fed and Bank of Canada retains a deep toolkit to address the fallout from the coronavirus if economic and market conditions weaken further.

Fear blocks clear thinking

Markets are being driven by fear that the coronavirus outbreak is just getting started. This is understandable, but the key word to focus on is "fear." Volatility will likely remain a driving factor in the days and weeks ahead, although the surge in global markets in early March is cause for cautious optimism. While coronavirus remains front and centre, it's important to remember that other positive news may move markets.

No one wants to dismiss the human toll that this contagion is taking, but it's important to know that fear of contagion is more damaging to markets than the contagion itself. Past market shocks have shown that investors who remain invested and focused on long-term goals do better overall.

Past crises hold important lessons

Event-driven corrections like those that occurred after SARS and 9/11 caused an abrupt drop in economic activity and declining stock prices. But it's important to remember that US consumer fundamentals look solid today.

US consumers are the biggest drivers of global economic growth. While a near-term hit to US growth is likely, the shock comes at a time when the US economy is relatively robust. We are focused on seven factors that are supporting US consumers: strong consumer confidence, healthy wage growth, high employment rates, low interest rates, low debt levels, higher savings rates, and low inflation.

HSBC

Our views

Current volatility is allowing us to take advantage of the repricing of some attractive companies.

HSBC is well positioned in this volatile environment

At the end of the day, good investments weather storms. We are comfortable with the companies we own, their business models, their sustainability and their ability to generate cash flow and favour companies that have attractive dividend growth. These qualities made them good investments before the correction and make them even more attractive now at these levels. We are still slightly overweight equities.

In Canada, value stocks remain appealing from a valuation standpoint compared with more expensive growth stocks. Current volatility is also allowing us to take advantage of the repricing of some attractive companies.

The current volatility is offering opportunities to invest in quality corporate bonds at compelling levels.

Within fixed income, we still favour corporate bonds overall because of their higher return potential over government bonds. In the government sector, we also prefer provincial bonds over Government of Canada bonds because of their higher potential for returns. The current volatility has also provided opportunities to invest in quality corporate names at compelling levels.

We remain moderately pro-risk, but we are more selective

Based on current valuations, we estimate that holding a moderate pro-risk stance in our multi-asset portfolios can produce adequate returns for long-term investors. We still believe the disruption to global economic activity is likely to be temporary in nature, with policy support helping to cushion the blow.

But at this point, we think it is important to build up portfolio resilience against the potential for a more significant and protracted global economic slowdown. We will continue to be more selective in the risk assets we hold.

Diversification remains key. Our portfolios are diversified in bonds and currencies that are mitigating the impact of the correction.

Diversification and focusing long term are key to getting through this crisis

Diversification remains key. Our portfolios are diversified in bonds and currencies that are mitigating the impact of the correction. Every decade experiences crises and market corrections. A diversified portfolio has always proved to be the best defence in corrections and volatile markets.

Investors who stick to their plan will almost always look back and be happy they didn't sell in a panic.

History suggests that panicked sellers will likely be losers. Never sell low and buy high. Selling and parking cash on the sidelines might seem like a good plan, but when do you reinvest? Investors who stick to their plan will almost always look back and be happy they didn't sell in a panic.

Important Information:

This document has been prepared by HSBC Global Asset Management Limited (AMG) and is distributed by HSBC Investment Funds (Canada) Inc. (HIFC), HSBC Private Wealth Services (Canada) Inc. (HPWS), and the HSBC InvestDirect division within HSBC Securities (Canada) Inc. (HIDC) ("we" refers to AMG, HIFC, HPWS, and HIDC collectively).

The contents of this document may not be reproduced or further distributed to any person or entity, whether in whole or in part for any purpose or otherwise, without the prior written permission of AMG. All non-authorized reproduction or use of this document will be the responsibility of the user and may lead to legal proceedings.

The material contained in this document is for general information purposes only and does not constitute advice or a recommendation to buy or sell investments. Some of the statements contained in this document may be considered forward-looking statements which provide current expectations or forecasts of future events. Such forward-looking statements are not guarantees of future performance or events and involve risks and uncertainties. Actual results may differ materially from those described in such forward-looking statements as a result of various factors. We do not undertake any obligation to update the forward-looking statements contained herein, or to update the reasons why actual results could differ from those projected in the forward-looking statements. This document has no contractual value and is not by any means intended as a solicitation, nor a recommendation for the purchase or sale of any financial instrument in any jurisdiction in which such an offer is not lawful. The views and opinions expressed herein are those of AMG at the time of preparation, and are subject to change at any time. These views may not necessarily indicate current portfolios' composition. Individual portfolios managed by AMG or HSBC Global Asset Management (Canada) Limited (AMCA) primarily reflect individual clients' objectives, risk preferences, time horizon, and market liquidity.

The value of investments and the income from them can go down as well as up and investors may not get back the amount originally invested. Past performance contained in this document is not a reliable indicator of future performance whilst any forecasts, projections and simulations contained herein should not be relied upon as an indication of future results. Where overseas investments are held, the rate of currency exchange may cause the value of such investments to go down as well as up. Investments in emerging markets are by their nature higher risk and potentially more volatile than those inherent in some established markets. Economies in emerging markets generally are heavily dependent upon international trade and, accordingly, have been and may continue to be affected adversely by trade barriers, exchange controls, managed adjustments in relative currency values and other protectionist measures imposed or negotiated by the countries with which they trade. These economies also have been and may continue to be affected adversely by economic conditions in the countries in which they trade.

We accept no responsibility for the accuracy and/or completeness of any third party information obtained from sources we believe to be reliable but which have not been independently verified.

This information has been prepared for informational purposes only, and is not intended to provide and should not be relied on for accounting, legal or tax advice. You are advised to obtain appropriate professional advice where necessary.

All products and services of HIFC, AMCA, HIDC and HPWS are only available for sale to residents of Canada, unless the laws of a foreign jurisdiction permit sales to its residents. Please contact an HSBC Mutual Fund Advisor or HPWS Investment Counsellor for more details. The contents of this report should not be considered an offer to sell or a solicitation to buy products or services to any person in a jurisdiction where such offer or solicitation is considered unlawful.

Important Information about HSBC Global Asset Management (Canada) Limited (AMCA)

HSBC Global Asset Management is a group of companies in many countries and territories throughout the world including AMCA that are engaged in investment advisory and fund management activities, which are ultimately owned by HSBC Holdings plc. AMCA is a wholly owned subsidiary of, but separate entity from, HSBC Bank Canada.

Important Information about HSBC Investment Funds (Canada) Inc. (HIFC)

HIFC is the principal distributor of the HSBC Mutual Funds and offers the HSBC Pooled Funds through the HSBC World Selection Portfolio service. HIFC is a subsidiary of AMCA, and indirect subsidiary of HSBC Bank Canada, and provides its products and services in all provinces of Canada except Prince Edward Island. Mutual fund investments are subject to risks. Please read the Fund Facts before investing.

Important Information about HSBC Private Wealth Services (Canada) Inc. (HPWS)

HPWS is a direct subsidiary of HSBC Bank Canada and provides services in all provinces of Canada except Prince Edward Island. The Private Investment Management service is a discretionary portfolio management service offered by HPWS. Under this discretionary service, assets of participating clients will be invested by HPWS or its delegated portfolio manager in securities, including but not limited to, stocks, bonds, pooled funds, mutual funds and derivatives. The value of an investment in or purchased as part of the Private Investment Management service may change frequently and past performance may not be repeated.

Important Information about HSBC InvestDirect (HIDC)

HIDC is a division of HSBC Securities (Canada) Inc., a direct subsidiary of, but separate entity from, HSBC Bank Canada. HIDC is an order execution only service. HIDC will not conduct suitability assessments of client account holdings or of the orders submitted by clients or from anyone authorized to trade on the client's behalf. Clients have the sole responsibility for their investment decisions and securities transactions.

Expiry Date: 31 March 2020

DK2000120A / H202003005 / P2003002 / HD200305