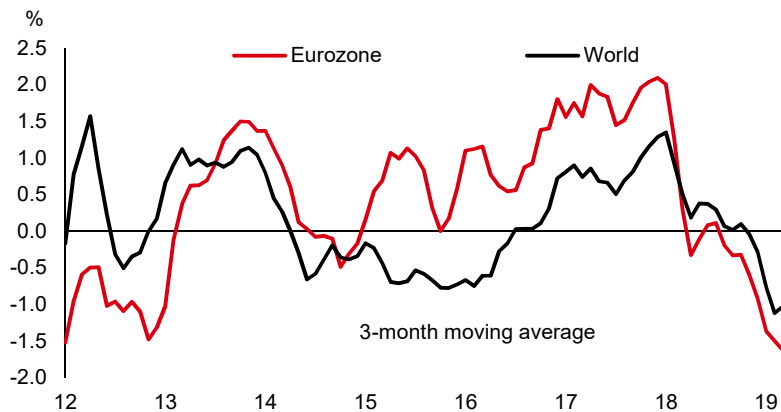


Eurozone: life in the slow lane

Eurozone economic growth has slowed markedly over the past year

Eurozone economic growth has slowed markedly over the past year. Our Nowcast, or “big data” approach to tracking the economic cycle, shows the deterioration has been greater than seen in the wider global economy (Figure 1).

)LJXUH (XUR]RQH YHUVXV ZRUOG 1RZFDVW GLIIHUHQFH IU



6RXUFH +6%&DO \$VVHW 0DQD]VHRPHQW \$SUGDWD

The slowdown has been caused by a mix of cyclical and transitory factors

There is no one obvious reason explaining the slowdown, but rather we think a number of cyclical (or “fundamental”) and transitory (or “temporary”) factors have been at play. These are summarised in Figure 2.

)LJXUH :KDW]V EHKLQG WKH HXUR]RQH VORZGRZQ"

&\FOLFDO		7UDQVLWRU\	
	([SRUW J has slowed amid weaker economic growth in China and regional trading partners (e.g. UK)		The DXWR V has been hit hard by new emissions testing guidelines
	Industry facing F D S D F L W \ F R Q V W U S e c i a l l y i n Germany		([WUHPH Z has been disruptive, including heavy snowfall and a drought in the Rhine river
	The European Central Bank (ECB) ended its bond buying programme in December 2018		3 R O L W L F D O X B C R I H U W D L Q W \ Italy) has weighed on confidence. France has witnessed protests

6RXUFH +6%&*OREDO \$VVHW 0DQD]VHRPHQW DVRI \$SULO

2XU YLHZV

We think a eurozone recession is unlikely this year, and thus remain comfortable to take advantage of favourable equity valuations in the region

Germany has been hit harder than other eurozone economies, which is understandable given it is more exposed to Chinese demand, has a large auto sector and has been affected by the brunt of the bad weather.

,QYHVWPHQWV DQQXLW\ DQG LQVXUDQFH SURGXFW

\$5(127	\$ % \$1. '(326,7 \$5(\$5(127	\$5(127
25 2%/, *\$7,21 127	,1685(' % < \$1&\$5\$17((' % < 7+(0\$ <)('5\$/	%\$1. 25 /26(
2) 7+(%\$1. 25)', &	*29(510(17	\$1 < 2) ,76	9\$ /8(
\$1 < 2) ,76 ,1685('	\$*(1 & <	\$), /, \$7(6	



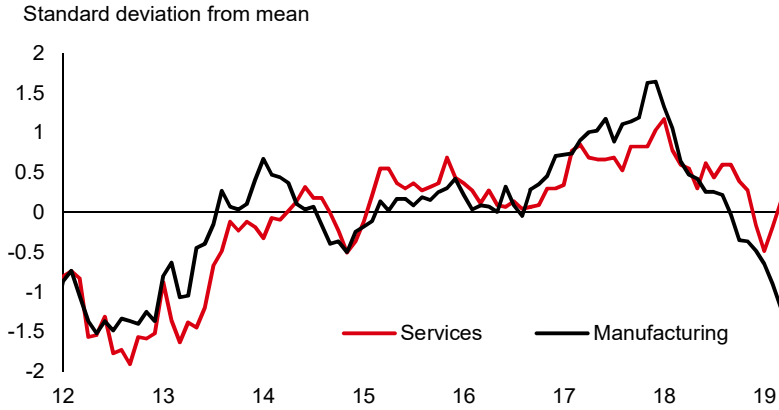
&XUHQW SHVVLPLV LV RYHUGRQH

A robust services sector is one reason to be optimistic about the growth outlook...

Despite the recent disappointing performance, we think there are a number of reasons to suggest current pessimism on eurozone growth is overdone.

1. 7KH HXURJRQH VHUFLFHV VHFWRU (Figure 3) reflects a strong labour market and slowly rising wage growth. All in all, household spending power remains strong enough to keep domestically focused sectors of the economy in good health.

)LJXUH (XURJRQH 30, QHZ RUGHUV

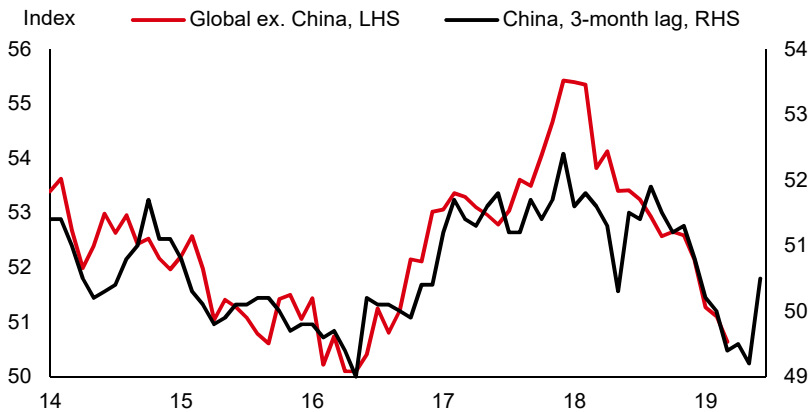


...while there is scope for a rebound in manufacturing

6RXUFH +6% *OREDO \$VVHW 0DQDJHPHQW GDWD DV RI \$SULO

2. \$OWKRJK WKH PDQXIDFWXULQJ VHFWRU LV LQ D ZHDN UHERX. This could be driven by a recovery in China's economic growth rate just as a number of the above-mentioned transitory factors unwind. Recent PMI numbers from China are encouraging in this respect (Figure 4).

)LJXUH 0DQXIDFWXULQJ 30, V



6RXUFH +6% *OREDO \$VVHW 0DQDJHPHQW GDWD DV RI \$SULO

The policy environment is also supportive. For example, interest rates will be on hold this year

3. 7KH SROLF\ HQYLURQPHQW .DHDILQV D\ \$SRQW, LF\FH is implementing an easing package this year in response to domestic discontent, while Italy's government is reversing the previous administration's plans to tighten policy.

Meanwhile, the (&% has recently signalled that interest rates will remain unchanged for (at least) the rest of 2019. They are also planning to extend their programme of cheap loans to banks, which is important to support credit growth.

ODUNHW FRQVLGHUDWLRQV

Pessimism around the eurozone growth outlook is unsurprising, and multiple risks require monitoring (China, trade tensions, Brexit/Italy). However, a solid labour market is buoying the domestic backdrop. The manufacturing sector can benefit from a potential rebound in Chinese growth and an unwinding of transitory disruptions. Policy is also supportive.

This gives us confidence that a HXURJRH UHFHVLRQ L. And with LHX & R JRLNHV. Tax cuts still favourable (on a hedged basis), we believe they remain an DWUDFWLYH SURSRVLWLRQ LQ JORSDO PXO in line with our overweight stance on global equities more generally.

One implication of more dovish monetary policy has been YDOXDWLRQV LQ WKH ERQG VSDF. We EHLQJ VWU believe it makes sense to remain underweight eurozone government and investment grade corporate bonds, although high-yield bond valuations are more consistent with a neutral positioning, in our view, and default rates remain low.

Hussain Mehdi, Macro & Investment Strategist

, P S R U W D Q W L Q I R U P D W L R Q

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. 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 HSBC Global Asset Management Global Investment Strategy Unit and HSBC Securities (USA) Inc. 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 HSBC Global Asset Management 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 while 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. Mutual fund investments are subject to market risks, read all related documents carefully.

3 O H D V H F R Q V L G H U W K H L Q Y H V W P H Q W R E M H F W L Y H V U L V N V F K D U J H V D Q G H [S H
S U R V S H F W X V Z K L F K F R Q W D L Q V W K L V D Q G R W K H U L Q I R U P D W L R Q F D Q E H R E W D
) L Q D Q F L D O \$ G Y L V R U R U F D O O 5 H D G L W F D U H I X O O \ E H I R U H \ R X L Q Y H V

Investment and certain insurance products, including annuities, are offered by HSBC Securities (USA) Inc. (HSI), member NYSE/FINRA/SIPC. In California, HSI conducts insurance business as HSBC Securities Insurance Services. License #: 2 (. HSI is an affiliate of HSBC Bank USA, N.A. Whole life, universal life, term life, and other types of insurance are provided by unaffiliated third parties and offered through HSBC Insurance Agency (USA) Inc., a wholly owned subsidiary of HSBC Bank USA, N.A. Products and services may vary by state and are not available in all states. California license #:

2' . , Q Y H V W P H Q W V \$ Q Q X L W \ D Q G , Q V X U D Q F H 3 U R G X F W V \$ U H Q R W D G H S R V L
R I L W V D I I L O L D W H V 1 R W) , & L Q V X U H G R U L Q V X U H G E \ D Q \ I H G H U D O J R Y H U Q P H
J X D U D Q W H H G E \ W K H E D Q N R U D Q \ R I L W V D I I L O L D W H V D Q G V X E M H F W W R L Q Y H
L Q Y H V W H G

\$ O O G H F L V L R Q V U H J D U G L Q J W K H W D [L P S O L F D W L R Q V R I \ R X U L Q Y H V W P H Q W V V
L Q G H S H Q G H Q W W D [D G Y L V R U