26 March 2020
For Client Use

Investment Event

US Senate approves fiscal package

The US Senate has agreed on an USD2trn package of fiscal support measures for the US economy

Despite this policy action, a deep global recession remains assured

Our views

We expect that investors will require evidence that case growth is "under control" before a sustainable recovery in risk appetite can take hold. In the short-term, a cautious investment strategy remains warranted

However, highly attractive valuations for risky asset classes imply potentially attractive rewards to investors with a longer-term horizon

US Senate agrees fiscal stimulus package

Following days of wrangling between US lawmakers, the US Senate has agreed on an USD2.2trn package of fiscal support measures for the US economy, equivalent to around 10% of US GDP. These measures are summarised in Table 1. Democratic Speaker Nancy Pelosi has indicated the House of Representatives will approve the package, before being signed by US President Trump.

Table 1: Summary of US fiscal measures

Measure	Description	USD
Direct cash transfers	USD1,200 rebate payment per individual earning less than USD75,000 (USD2,400; USD150,000 for couples). An additional USD500 per child.	290bn
Loans to industries	Includes USD50bn for airlines (USD25bn in grants and USD25bn in loans).	504bn
Small business assistance	Paycheck protection and forgivable loans provided by certified local banks and credit unions	377bn
Healthcare grants	Funding for test kits, medical supplies and other procedures	180bn*
State and local governments	Payments proportional to the relative population	175bn
Deferred payroll taxes	Tax credits and deferred payroll taxes for businesses maintaining payroll	280bn
Boost to unemployment benefits	Each unemployed person will get an extra USD600 a week and insurance will be extended by one month to four months	260bn
Food, education and disaster assistance	Includes USD25bn in food assistance, USD24bn for farmers, USD32bn* for schools and USD45bn for disaster assistance	126bn*
	Total	**2.2trn**

*Minimum figures. Source: HSBC Global Asset Management, as at 26 March 2020

The US economic situation is deteriorating fast

The substantial policy easing by US authorities follows an ongoing exponential growth rate in cases of COVID-19 in the US and Europe, and a further ramping up of administrative measures aimed at containing the outbreaks.

Federal Reserve St. Louis President James Bullard has suggested US GDP could contract by 50% in the second quarter (on an annualised basis) and the unemployment rate increase to 30% (from 3.5% at present). Data released later today is likely to show a record increase in US citizens filing for unemployment insurance.

Following a similarly dramatic deterioration in survey data in Europe and China, a global recession is now inevitable and it is set to be very deep. The duration and depth of this recession will depend on a range of factors, such as: how long containment measures taken by authorities remain in place; and how well the fiscal and monetary support policies insulate households and firms from the initial shock of the containment measures.

Market considerations

This fiscal package has been highly anticipated by global investors, with recent equity market performance boosted by news that the package was close to being finalised in the aftermath of the Fed's recent unprecedented monetary policy measures – including facilities to purchase corporate bonds for the first time in its history.

It is clear that global policymakers are pushing the boundaries to help mitigate the economic damage of the outbreak. Nevertheless, the global economy is still facing a very challenging and uncertain period, and financial market volatility is elevated – the IMF has noted "a recession at least as bad as during the global financial crisis or worse" is likely.

We expect that investors will require evidence that case growth is "under control", and that governments are willing to ease restrictions before a sustainable recovery in risk appetite can take hold. For the time being, we are in an environment of many "unknown unknowns", which suggests a cautious investment strategy remains warranted in the short-term.

However, there is a silver lining. Recent market moves have incorporated a lot of bad news which have materially increased our estimate of prospective returns for risky asset classes, especially compared to government bonds. Therefore, our strategic view remains pro-risk, with potentially attractive rewards to investors with a longer-term mind-set and investment plan.

Important information:

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. **Please consider the investment objectives, risks, charges and expenses carefully before investing. The prospectus, which contains this and other information, can be obtained by calling an HSBC Securities (USA) Inc. Financial Advisor or call 888-525-5757. Read it carefully before you invest.**

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 #: **OE67746**. 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 #: **OD36843**. **Investments, Annuity and Insurance Products: Are not a deposit or other obligation of the bank or any of its affiliates; Not FDIC insured or insured by any federal government agency of the United States; Not guaranteed by the bank or any of its affiliates; and subject to investment risk, including possible loss of principal invested.**

All decisions regarding the tax implications of your investment(s) should be made in consultation with your independent tax advisor.