Video Transcript

HSBC Investment Outlook – Q2 2025 (Issued 13 March 2025)
Willem Sels

Markets are being subjected to a very busy news cycle and four significant shocks leading to elevated uncertainty. Now, interestingly though,these shocks are occurring while the global economy, though slowing a bit, is healthy and resilient with plenty of opportunities for companies to grow their earnings.

Those earnings have continued to surprise on the upside, and the economy is benefiting from real wage growth, governments' willingness to invest and most central banks maintaining their easing bias.

So in that context, we maintain our risk-on approach and think that investors should manage the shocks around them by diversifying and by tapping into new opportunities, not by hunkering down.

The first shock is in fact, a positive one. The development of new models like Deep Seek's has hit some chip makers and The Magnificent Seven. But by throwing the AI race wide open and creating cheaper models, we think that the adoption of AI will accelerate. And that should help boost productivity and lift earnings growth across sectors, not just in technology.

We therefore continue to broaden our exposure beyond IT into financials, industrials, communications and healthcare. China's rapid technological progress has come as a second shock to some investors and given investors' big underweight positions in China, it has led to a significant rebound for Chinese stocks.

We think there's further upside, though, driven by technology but also by the policy pivot to a friendlier stance towards the private sector. China's deflationary forces are not behind us, so we maintain a barbell approach for now, with preferences for technology on the one hand and dividend-paying SOEs on the other.

The third shock is more negative. Trade frictions will hurt activity, but for now, we expect the impact to be mild because some tariffs are up for negotiation and countries resort to more regional integration.

The US will be impacted too, but re-onshoring may accelerate as foreign firms want to avoid tariffs by producing in the US, and tariff revenues could be used to cut taxes. The fourth shock is the profound change in international relations from a multilateral, rule-based world to one that is based on bilateral deals.

And to adapt, governments will focus on security in all of its aspects, including defence and cyber security, whilst also ensuring access to materials and energy. And they will target economic security by innovating rapidly and striving for leadership in the industries of the future.

Now, for investors, there are many implications from support for AI adopters and AI-related software to consumers switching to local brands and services outpeforming tariff-prone goods. Investors will also continue to incorporate gold and quality income amid all of those uncertainties. But with so much going on, how can we put some structure around all of this and translate it into a good portfolio strategy? Well, first, we don't think investors should position for stagflation, but rather for moderate growth and inflation.

Innovation remains key in boosting growth and keeping inflation in check. We also think that the shocks that we've just discussed reinforce the structural trends that underpin our thematic investment ideas, from disruptive technologies to China's innovation champions and energy security.

These trends and themes are even more relevant today. In fact, our first priority this quarter is to invest in global AI adopters and electrification. Governments are innovating and investing as they want their country to lead in the new industries of the future.

Beneficiaries can be found in all sectors and clearly a lot of electricity is needed. So investments in infrastructure, electricity and data centres are picking up quickly.

Secondly, we power up our portfolios with multi-asset and active fixed income strategies. A multi-asset approach opens up opportunities across asset classes, whilst also providing that diversification. And a solid allocation to quality bonds provides a stable income stream. We like an active approach where managers can adjust their positioning in our volatile markets.

Thirdly, we build out our core allocation to private markets and hedge funds where appropriate. Starting with our overweight in hedge funds, thanks to their rich opportunity set. Private equity should benefit from increased M&A and capital market activity, and private credit markets tend to generate relatively stable and attractive returns through the cycle, especially compared to public markets.

And lastly, we discover areas of domestic resilience in an evolving Asia. We hold overweights in China, in Japan, India and Singapore as that region benefits from the diversity of its return drivers. We tap into China's innovation champions, the region's focus on shareholder value creation, domestic demand and Asia's high quality bond markets.

So variety is the spice of life, as they say, and so it is with portfolios, where we exploit a range of investment themes and have been broadening our geographical and sector exposure, as well as our tail risk hedges, to find the best opportunities and manage the risks.