Video Transcript

HSBC PB Investment Outlook – Q1 2025 (Issued 21 November 2024)

Discover domestic resilience in an evolving Asia

Cheuk Wan Fan

In Asia, we find multiple growth engines that support the region's, well above global average economic growth in 2025. Robust domestic growth drivers in India and ASEAN, coupled with China's broadening polic -y stimulus, are expected to support solid Asia ex-Japan GDP growth of 4.4% despite the trade uncertainty under the new US administration.

We expect external headwinds will likely trigger more policy stimulus from China to mitigate downside risks to growth in the coming year. Meanwhile India and ASEAN continue to ride on structural tailwinds from you ng demographics, rising middle-class consumers, strong foreign and domestic private investment flows, and technology boom.

Navigating the fast-evolving geopolitical landscape, our newly launched theme on Asia's Domestic Leaders focus on local industry champions which rely on domestic demand and have limited exposure to the US exports market. In our overweight markets in Japan, India and Singapore, we find attractive alpha generation opportunities from the domestic growth leaders with strong competitive position and above sector average earnings growth prospects to withstand external trade headwinds.

The sustained reflation trend and bumper wage hikes in Japan support recovery of domestic consumption leaders that benefit from improving consumer spending. In China, we expect domestic leaders with strong national brand franchise, healthy balance sheets and competitive edges are better positioned to benefit from policy stimulus to boost domestic demand. More decisive demand-side stimulus will likely be rolled out in China in 2025 to offset tariff risk.

We favour high quality internet and consumer leaders which can benefit from policy support to boost domestic consumption. Our new theme on Power Up Asian Shareholder Returns positions in quality companies that improve ROE by paying high dividends and increasing share buybacks. Solid earnings growth will drive over 7% growth in dividends in Asia ex-Japan, and 9% dividend growth in Japan in 2025, thanks to positive progress of corporate governance reforms. Quality Chinese SOEs paying high dividends look attractive. Share buybacks in Asia are growing at a record pace, particularly in Japan, mainland China and Hong Kong markets.

Notably, the PBoC has started a specialised re-lending facility to help listed companies and major shareholders buy back shares. Our existing theme on the Rise of India and ASEAN shifts its focus more towards domestic consumption to add resilience to our Asian equity portfolios against the tariff overhang. The recent pullback in Indian equities presents an attractive window to add exposure as the market remains well supported by double-digit earnings growth, high ROEs, and strong inflows from domestic investors.

Within ASEAN, we prefer Singapore equities as the country has a trade deficit against the US while it stays defensive versus other Asian peers due to its compelling dividend yield that looks attractive in a falling rate environment. Continued Fed rate cuts will create more room for Asian central banks to lower rates that should bode well for quality bonds in the region.

To capture the best quality Asian credit opportunities, we stay focussed on Asian USD investment grade corporate bonds, Indian and Indonesian local currency bonds, and Indonesian high quality quasi-sovereign IG bonds in US dollar.