Video Transcript

HSBC Investment Outlook – Q3 2025 (Issued 22 May 2025)
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Markets have seen more than their fair share of volatility lately, but in both directions. The big shock of Liberation Day, which led to an equity market correction and turmoil for US Treasuries, was followed by a big bounce after the 90-day reprieves on the tariffs.

Those reprieves mean that the tariff-related economic and market risks have clearly decreased until those 90 days run out. Moreover, the very quick negotiations with China and a U-turn in policy when Treasury markets became too volatile give investors the sense that US policy makers are listening to markets and businesses, and clearly that is being well received.

There are, of course, still very clear challenges. We don't know what the final trade deals will look like, and we have not yet seen the economic effects of the tariffs unfold. Trade frictions will probably dampen growth and push up prices, and the uncertainties may cause businesses to freeze big investments. But while that will probably lead to below normal economic growth, we do not expect to see a recession or stagflation.

Many consumers and businesses could, in fact, quickly frontload some purchases before the 90-day period runs out if they fear that tariffs could rise again. So the upside and downside risks are much more balanced than investors feared just a few weeks ago.

As US recession tail risks ease, we think the active flows away from USD assets and away from the US Dollar will ease. That signals less pressure on the US Dollar and more range trading compared to the euro. European equities are still supported by their attractive relative valuations and increased spending on defence, but much will depend on how ambitious Europe's initiatives will be to innovate, deregulate and invest in digitalisation and energy security.

Now, we're sometimes asked whether the trade tariffs will threaten companies' China+1 strategy in Asia, but we don't think this will be the case. Not all the production can easily be brought back to the US, as US costs are higher than in China and the economies of scale, may be bigger in Asia.

China's tech innovation is, of course, helping the Chinese manufacturing sector, while policy makers will add support where needed to revive domestic consumption. Within Asia, we see India as a potential winner from the reshuffling of supply chains as it is rapidly building up its manufacturing base.

So what does all of this mean for investors?

We position for slow but positive growth, volatile economic and earnings data, and mild rate cuts. And that implies a mild risk-on tone, but with a strong emphasis on quality assets and management of short-term volatility. On the equity side, the focus on large cap and quality, a preference for services over goods, and a focus on themes with long-term structural support make sense.

And in the bond markets, we continue to tap into the broad opportunity set across sub-asset classes but use a tactical and active approach. Swings in rate cut expectations and risk appetite allow active managers to opportunistically lengthen or shorten duration, and move up or down the credit quality spectrum.

Now we overweight gold and hedge funds as diversifiers but think that Private Credit and Private Equity also play an important role too, where appropriate. Private Credit's historical track record with lower default rates and higher recovery rates than public markets is important in the current environment.

And while Private Equity is not helped by the subdued IPO activity, which is leading to below-average distributions, the market volatility can provide attractive long-term entry multiples. Infrastructure meanwhile can provide relatively stable and inflation-linked cash flows, which will be welcomed in the current environment.

Now, of course, the focus on key trends can also help look through some of the short-term volatility, and we have adapted our themes to the market's changing focus. The focus of technological disruption, for example, has moved from US Megacaps to the broader global universe, and from hardware to software.

And our 'Asia in the new world order' trend has changed shape too, from global integration to more regional integration and domestic stimulus, and to more innovation-led growth. As for our climate action theme, it is increasingly seen in conjunction with energy security. As for our four priorities in portfolios, they are as follows:

Firstly, we rebuild equity exposure with more diversified regional and sector positioning – because many of the best thematic opportunities span across regions and sectors. Broad exposure helps widen the opportunity set and screen for attractive assets.

Secondly, we capture expanding global opportunities in AI adoption and monetisation because many AI-related stocks have sold off while we think that AI-led innovation continues to revolutionise areas such as the Evolving AI Ecosystem and Robotics & Automation.

Thirdly, we mitigate currency and portfolio risks with alternatives, multi-asset and volatility strategies.

And finally, we tap into Asia's domestic resilience and structural growth – because large sections of Asia's stock market are domestically oriented in nature, and government stimulus will support local demand.