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Video Transcript

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

New Growth Engines for a Changing World

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The market outlook for 2025 benefits from a favourable starting point. The global economy is relatively healthy, most companies continue to generate strong earnings growth, inflation has almost been conquered and many central banks continue to cut rates. And with some key elections behind us, there is now more clarity on this front too.

Of course, the world we live in remains complex, including new questions about the tariffs and fiscal policies of the new US administration. But companies, governments and households are adapting to the changing realities, creating new engines of growth. Many governments are putting in place powerful and detailed industrial policies to protect strategically critical industries and support manufacturing. Their high debt levels mean, of course, that they need to carefully target their spending, but most focus on building out infrastructure to enable re-onshoring, boost energy independence and support the digital economy. AI-led innovation is not just benefiting the chip makers but causing increased investment across sectors as CEOs try to innovate and reap productivity gains.

Companies are also increasingly using their big cash holdings and the falling borrowing costs to boost shareholder value through share buybacks and increased M&A. And households from their part are benefiting from the falling inflation and interest rates, while areas like the silver economy continue to grow. Last but not least, China's government is focusing on boosting domestic demand through monetary and fiscal stimulus. Clearly, all of those engines are very closely aligned to our thematic framework, the structural trends of disruptive technologies, climate action and evolving society, as well as Asia's changing role in the new world order. And from a cyclical perspective too, these engines add to the current healthy macro environment to keep the world economy going and create a rich opportunity set for investors across asset classes.

So we think cash will continue to underperform well-diversified portfolios. We overweight global equities, with a clear preference for the US, which should benefit from extended tax cuts and deregulation under the new administration, as well as strong US innovation. In Europe, the lack of a clear industrial policy, concerns over US tariffs and relatively subdued growth explain our underweight o n Eurozone stocks, but we remain more constructive on the UK. We also overweight Japan, India and Si -ngapore's stock markets. The potential US tariffs and rising US deficits may create a bit of volatility in th e bond market, but real yields are elevated and the Fed should still continue to cut rates. So we are takin g a neutral stance on most parts of the bond market and think an active and tactical approach is needed. We also like gold and hedge funds as diversifiers. And the US dollar should do well too, we think, thanks to resilient US economic growth and an attractive carry differential compared to the euro and the yen.

So what are our four priorities in portfolios?

First, we capture earnings tailwinds from policy priorities and innovation, two of our growth engines for 2025. Industrials in the US and Asia should benefit from re-onshoring and government policies. AI-led innovation should boost technology and themes such as Intelligent Automation & AI and NextGen Medicines. And all of this requires more electricity and infrastructure, where we see strong opportunities for investors.

Secondly, we fight falling cash rates with multi-asset and active fixed income strategies. Most central banks continue to cut rates, while global multi-asset strategies benefit from a strong opportunity set. The current low correlation between equities and bonds also argues in favour of a multi-asset approach, especially those with an active and tactical approach to help deal with volatility and take advantage of it.

Thirdly, we build out our core allocation to private markets and hedge funds. Many companies with attractive earnings growth are not quoted on stock markets as they choose to stay private for longer. So investors, where appropriate, can consider private market exposure to capture those opportunities.

Private credit markets tend to generate relatively stable and attractive returns through the cycle, especially compared to public credit markets. And hedge funds have an attractive opportunity set, as volatility and dispersion should remain elevated.

Lastly, we discover areas of domestic resilience in an evolving Asia. Asia ex-Japan should see 4.4% GDP growth in 2025 despite trade uncertainty, thanks to robust domestic growth in India and ASEAN, couple d with Chinese stimulus that is broadening. That includes our new theme on Asia's domestic leaders an d we apply the same domestic lens in our overweight markets of Japan, India and Singapore, and our theme on the rise of India and ASEAN.

In China, we like internet and consumer leaders to benefit from policy support. We continue to look for companies that distribute high dividends and increase share buybacks to boost shareholder value, and in Asian fixed income, we focus on high quality bonds.