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Video Transcript

HSBC Investment Outlook – April 2025 Monthly View
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Markets struggle with policy uncertainty, and the growing realisation that this uncertainty may well stay with us for longer. Now the soft data, (i.e. confidence indicators) have already dropped to low levels, hard data has held up so far – but if that uncertainty persists, we think that the hard data will start to turn weaker too.

Similarly, whilst investor sentiment has already dropped substantially, most indicators suggest that positioning has not fully followed: individual investors and asset managers are still overweight US stocks and we therefore think that they may well reduce positions a little bit further. Comments from the Fed and the US administration make it clear that there is no immediate 'policy put' from either; in fact, the Fed seems to be in a wait-and-see mode because they say they lack visibility. So without a policy put, markets will need to price in their own assessment of fair earnings and valuation multiples. Now those valuations are not yet at a level that brings in much opportunistic buying.

It's true, of course, that the Magnificent 7 price/earnings ratios have fallen sharply, but for the other stocks, the forgotten 493, the valuations are just in line with the 10-year average. There is still a substantial valuation gap with Europe and Asia, whilst the growth differential between the US and Europe has narrowed. So any negative headlines could cause a renewed mild dip before the market then finds support and rebounds. One of those headlines could occur on the 2nd of April, when reciprocal tariffs should be announced, so we take advantage of the mild recent rebound of US stock markets that we've just experienced to cut US stocks back to neutral, and that leads us also to adopt a neutral view on global equities.

Now we do still see medium term opportunities in the US and we therefore think that adopting an underweight on US stocks would be exaggerated. Strong structural themes, including the AI ecosystem and US innovation, as well as re-onshoring should all lead to a lot of US investment. But we think that in the short term, it will be hard for US stocks to outperform global benchmarks. We think the same is true for the US dollar, so we move that to neutral as well.

We would like to add further to European and Asian stocks – in particular to China – where we see further scope for a rebound, but we may do that after we have more clarity on the reciprocal tariffs. So for now, we maintain our current neutral stance on Europe and our overweights in China, in India, in Singapore and in Japan. Now we think that bonds will be well supported amid those global uncertainties, and also because of their attractive income levels and the desire of many governments – including the US administration – to keep funding costs manageable.

In Germany, where yields recently spiked as a result of increased spending and fear of supply, we think that Bund yields are now attractive and we have upgraded Bunds to overweight. We're also overweight on UK gilts and we maintain our long duration stance in quality bonds, and we move global government bonds to neutral. We further diversify into gold and hedge funds and hold on to the overweights in those two areas as well.

So there are still plenty of areas to put money to work, but it's clear that the busy news flow and the market rotation require investors to be active. Other investors will prefer to take a longer-term approach by trying to look through volatility and selectively picking stocks that are well supported by structural themes. We think the long-term trends around energy security and infrastructure, for example, stand out in this respect.