Video Transcript

HSBC Investment Outlook – May 2025 Monthly View
Willem Sels

The newsflow remains erratic and that is something that markets naturally struggle with. Some recent policy U-turns have eased the immediate pressure – especially on the bond market – and that has helped avert a market meltdown.

But markets still brace for the economic impact, and a recent US consumer confidence indicator was particularly weak, because households fear that a big spike in inflation may be coming and they're already showing signs of raising precautionary savings ahead of this. Businesses, meanwhile, are confused about the rules and may find it hard to quickly change their supply chains.

Now, we think that investment in the US will eventually pick up, but it will take some time. So we expect US companies to use the first quarter earnings season to guide down consensus earnings growth. And as companies discuss how tariffs will affect them, we think that the many examples we will get of this will continue to weigh on sentiment. So while we have started to see more two-way volatility rather than just a straight selloff, we think that the negative impact on the US economy and the US equity market will continue, and that will be more negative for the US than for many other markets.

Investors will probably continue to rotate out of US assets, and we therefore expect that US stocks will underperform in the short term, whilst we maintain a more neutral stance with a 6-month horizon. We also think that the USD will continue to weaken in the short term, and the Japanese Yen and gold should benefit the most and therefore we are bullish on both. US treasuries have lost some of their safe haven appeal in recent weeks, but as growth slows, investor demand will come back and US Treasuries should stabilise.

We continue to prefer UK gilts and German Bunds over Treasuries for now, but think portfolios need a solid block of quality bonds to diversify and generate income. On the equity side, we think the continued rotation of flows will support European markets and the German coalition agreement and lower energy prices should help sentiment.

We fund our European upgrade by moving Japan's equity market back down to neutral, as the strong Japanese Yen and Japan's high exposure to US exports are rising challenges for the Nikkei. That high US exposure for Japan contrasts with the very low exposure of Chinese firms, which is often underappreciated.

In fact, Chinese equities only derive about 3% of their earnings from US exports, and that is one of the key reasons for our continued overweight on Chinese stocks. We expect more domestic stimulus to counter the trade headwinds, and we therefore further intensify our focus on domestically oriented companies. The current global market environment requires a well-diversified portfolio approach, with active management that takes advantage of volatility spikes and mispricing opportunities. Gold, volatility strategies, currency trades and hedge funds can all play a role. A focus on companies and borrowers with strong cash flows and market positions is key as well to transition this period of uncertainty.