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Video Transcript

CIO Virtual Roundtable: Top Questions from our Clients July 2025

Looking Beyond the Noise - Unlocking Resilient Investment Strategies Amid Uncertainties

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Hello everyone, and welcome to our Virtual CIO Roundtable discussion, where I bring together our four regional CIOs for Asia, EMEA, the UK and the US to tap into all of their expertise on the ground and to address some of your most important questions.

Following the publication of our mid-year Investment Outlook and the many events and client discussions around this, there are several questions that we would like to address with the regional CIOs.

So we are going to cover quite a bit of ground, starting with the US equity outlook, but also talking about those reports about US asset outflows, the question around de-dollarisation, Chinese equities, AI and also the volatility in the bond markets.

But before we dive into all of this, we conducted a poll on LinkedIn last week to understand what you are thinking, about what is driving the optimism in the market.

And based on the responses, it's clear that clients think that the optimism around technology and AI is driving a lot of that, and we agree with that view. But there is also that optimism around China, which we will discuss. Maybe people have some more reservations around tariffs and their impact that may still come. So all of that, we are going to discuss.

So Jose, let me start with you for the first question. Some clients are surprised that with everything that is going on, all the uncertainty around the tariffs, the many policy changes, the conflicts around the world, why the US equity market is doing so well, can you clarify this for us?

Certainly Willem. I think if you look at the markets today, it's important to remember a couple of things. First of all, we don't see the economy sliding into recession, and a lot of prognosticators had looked it for that earlier in the year.

Secondly, it's being driven by productivity and profitability. Remember, productivity is really doing well. And profitability this year is expected to grow 9%, and almost 14% in 2026, well above trend and an acceleration of earnings which are positive.

Last but not least is we're looking for tax cuts for the corporate and the consumer side.

And we're looking for deregulation, which should help the markets going forward.

And when I look inside the US equity market, one thing I'm noticing is that leadership of the technology sector and also of cyclicals.

Are those two trends that you think are going to continue?

Yes, I think they can, because if you look at where we are, remember the consumer is doing fairly well. We are seeing some cracks along the edges. But real disposable incomes are still positive. And remember, employment growth remains healthy. So, as long as margins stay strong and we think that's going to be helped by the productivity that's going to be created as AI diffuses through the economy.

So we think, yeah, that can continue to drive the economy and keep cyclicals strong.

If I may add, actually, Jose, among our clients, there's also renewed interest in the AI trade. I mean, judging from those recent earnings developments, you're really seeing that there's no let up in AI investment.

And also you can see that productivity is probably going to be coming through now. And also this investment, not only is it leading to increasing innovation, but it's also going to go into things like data centres. Now there's going to be more use of data centres, because if you look at the more advanced generative AI that can do things like video, that is going to be more energy intensive. So, for example, a six second generative AI clip is estimated to take as much energy as recharging your laptop twice over.

So clearly, there's going to have to be more investment there. And then also if you look at some of these big mega-cap names in the US, they've recovered, but their earnings have grown as well, to the point at which when you look at valuations, they're still almost 20% down from their peak.

So, you are still able to invest in these companies at a better price than before. So I think there's still a lot of interest here.

Now as you have grabbed the microphone Jonathan, and the point that struck me when I was talking to clients, is that the optimism around European stocks, which we saw earlier this year, has already waned.

And to some extent that's in line with our own moves where we went back into the US and therefore cut our European exposure back to neutral. Is that a fair reflection of your views, on European markets, including the UK?

Yes, there is still some interest. And that's not to say there're not opportunities across Europe. There are going to be companies that are going to benefit from the fiscal push in Germany or reaping rewards of previous reforms, like in the periphery or that sustainability investments as well.

It's just that you haven't quite got that scramble to find an alternative to US markets. And so that was a key reason in us moving down that overweight. There're lots of arguments to being positive on the UK. I think the market has done relatively well of late.

But if you actually look into the recent performance of the UK market, a lot of that has been driven by sentiment. There's been some sort of relative positive news on trade. If we look more at the fundamentals, we're not really yet seeing those fundamentals back up that increase in investor sentiment. Really what we need to see is a bit of that household sentiment improving. And for that you need some of those animal spirits to be lifted. Not seeing that yet, but we hold out hope for later on in the year.

So that brings me actually to that question about flows, because many investors have heard about those reports of big reallocation decisions, getting out of the US into other regions, supposedly because of the end of exceptionalism.

And Jose has, of course, already explained that the US is clearly not terminally ill and that there are many opportunities. And we don't see from our clients big outflows out of the US, just clients basically right-sizing allocations where their portfolios were too skewed. Now, Georgios, you have been looking at the industry-wide data. What are those data telling us?

Well, according to the latest data from the US Treasury, foreign investors sold $36 billion worth of US Treasuries during the month of April, which saw the biggest degree of turbulence. The Canadians, sold the most. But at the same time, we saw purchases from the governments of Japan and from the UK as well. When you're looking at China, there were some outflows, but these are quite small, and we have to keep in mind that the trend has been declining in recent years.

So I wouldn't read too much out of that specific number. Now, one might argue that in times of geopolitical stress or concern, typically you would expect purchases of Treasuries, given the extra demand for haven assets. But at the same time, I would point out that the amount that was sold in the month of April was quite small. And if you're looking at the red line, which depicts the total exposure of foreign holdings, you still see that we're hovering still very close to those record highs, near $9 trillion. So we don't expect pressure to intensify, but rather to abate. And investors to maintain comfort with US Treasuries, which remain, the deepest and most liquid bond market globally.

Now some portfolio managers have told us that indeed most institutional investors stay with US assets, confirming the story that you were telling us, Georgios, either because they see good opportunities in the US or because it's very hard to make any major shifts from that dominant US market into much smaller markets. But some institutional investors are doing an FX overlay where they hedge the US dollar risks, and some clients are considering the same. That's in spite, of course, of the fact that we do not expect from our sides to see major downside for the US dollar. So, Fan, can you explain our US dollar view to clients?

Well, the US dollar has depreciated 9% year to date due to concerns about US policy uncertainty. But this chart shows you the dollar is trading weaker than what interest rate differentials would suggest. So there is a material policy risk premium that reflects the "trust" issues are already priced in the dollar. Hence, we hold a neutral view on the dollar as downside risk should be limited from current levels. But we expect continued two-way volatility in the dollar driven by headline risks over the tariffs and policy uncertainty.

We think it's important to diversify currency exposure in the portfolios through global diversification, hedge funds and volatility strategies. So for clients in Southeast Asia, in the Eurozone and other non-US dollar regions who are worried about any US dollar weakness, they can of course hedge US dollar exposures. For clients in the US or in countries where the currency is effectively pegged or managed against the dollar, such as in Hong Kong or in the Middle East, US dollar weakness means an opportunity cost. So what are the options for them, Georgios?

Well Willem, clients who are worried about a softer outlook on the dollar can look at international markets, for instance, the bond market, as a source of extra return.

Essentially what you can see on the table here is that investing in blue chip companies in Europe, in the UK, but also in certain emerging market nations, you can actually identify opportunities with similar or even higher spread levels.

The yields are also still quite competitive compared to the recent history of these asset classes. And looking at the total return column, even though most of these assets are in the low single digits level when measured in their own currency, for an investor who is converting these returns into their home currency, you are receiving an extra source of return when measuring these in dollars.

So, it is about diversification, it's opening the net and also having that opportunity to use currency fluctuations as a source of return.

Now Georgios, you talk to a lot of Middle Eastern investors, and some managers have told us that in the Middle East, Asia has become quite a popular destination for capital and for portfolio flows as well. Is that something that you are seeing and where are those flows going?

Yes, we have seen a rise in the trade corridor between the Middle East and Asia, and we expect the trend to intensify in the years to come. That means scope for additional capital flows, but also foreign direct investment. When it comes to financial assets, we also think that clients in the Middle East and beyond will also seek the appeal of certain economies, such as India, which are driven by more domestic factors, but also the innovation and lower valuations of other companies, including in China and other parts of Asia, that will retain the appeal going forward.

Now, this is a good segue into our questions around Asia and foreign investors are looking at Asia, but are wondering why China has not yet added more domestic policy support to help offset the headwinds from the tariffs? Fan, can you explain?

One good reason why China hasn't introduced massive policy stimulus is the rapid rollback of extreme tariffs after the US-China framework trade deals were reached in May and June, which have led to de-escalation of trade tensions.

But we expect China will continue to roll out more policy stimulus that is targeted support to boost domestic consumption to offset the headwinds of global trade uncertainty. China's policy priorities will remain focussed on building technology self-sufficiency and reviving domestic consumption.

This chart shows you improving domestic consumption in China, with stronger-than-expected 6.4% retail sales growth in May, that hit the highest level since December 2023. So it's in fact precisely that domestic demand that we want to tap into and we pick mostly the domestically oriented equity markets, which include, of course, China, India and Singapore, and those are our principal overweights.

Now, what are the other attractions in the Asian markets? Because the interest in Asia goes far beyond the wish to diversify away from the US, there is also that positive attraction of a more positive Asian outlook that drives clients to Asia, right Fan?

Yes, we can find plenty of opportunities in Asia's domestic growth story and structural growth trends. You can see from this chart - earnings of many Asian equity markets are domestically driven.

Our three overweight markets, China, India and Singapore, all have very limited revenue exposure to goods exports to the US, at only 2 to 3%. We capture resilient equity returns through our theme on Power Up Asian Shareholder Returns, which focuses on quality companies that improve ROE (return on equity) by paying high dividends and increasing share buybacks. Market consensus projects Asia ex-Japan’s ROE to see broad-based increase from 11% last year to 12.5% in 2026.

For structural growth opportunities, we favour China's innovation leaders, especially the AI enablers and adopters in the e-commerce, online gaming, software, smartphones, semiconductor, cloud, autonomous driving and robotics sectors. DeepSeek’s breakthrough has unlocked an AI investment boom in China. This chart shows you China has overtaken the US and Europe in AI research output. You have heard from Nvidia's CEO Jensen Huang, telling analysts that 50% of the world's AI researchers are based in China.

That leads me to an intriguing question. Some clients have been wondering who is going to be the biggest beneficiary from AI, the US or China?

Now Fan has just made a strong case for China, and a recent report by PwC states that, at least from an economic perspective, the boost to GDP, thanks to AI, may be bigger for China than for the US. And that's largely because of the huge benefits that AI brings to automation for China's large manufacturing sector. And of course, also the quick take up of AI-led innovation in the consumer services in Asia. But Jose, I wanted to ask you, do you agree, or do you think the US will continue to lead?

You know Willem, I think both countries will do well, but I think the US already has the lead and will continue to extend that lead from here. And I think if you look at where we are, we're looking at a second wave of artificial intelligence, which is deeper and more case specific here in the US. You're going to see the diffusion of AI throughout the economy is going to increase productivity already from where it's from. And we're going to see profitability go up as well.

I think a couple of things really help the US case here as we go forward. Number one is, we already have a legal system that helps expand the use of AI and allow companies to innovate. We have the financial system to provide the wherewithal for these innovators to get access to capital. And then we have that virtuous cycle with the consumer already in place. And other countries have been trying to mirror that for years. And therefore consumers adopt it and they get jobs and that continues the cycle. And last but not least, we have the concept of creative destruction, which goes back a long way. But you are going to see companies that do not adopt this new technology will struggle, whereas new companies that are innovative will create new products and services, and that is going to help power that second wave of AI as well.

So I think both countries can do well, but the US is far from dead, yes.

And of course, tapping into both opportunities helps with geographical diversification and with finding the best value to exploit that AI trade.

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Now, talking of diversification, we also need to talk about bonds. And Jonathan, some clients worry about the US debt pile and how yields can possibly come down as that debt keeps rising. What do you say to these two objections?

So if we take the deficit first and the debt pile, arguably this has already impacted yields. So if you look at the term premium over the last nine months, in longer-dated US Treasuries, you have seen a rise higher. And the term premium, think of that almost like the risk premium in bonds. And if the risk premium in bonds is going higher, then that's going to feed through to equities as well. But I think we're at the point now where if you look at this chart, you've actually got real yields now that have reached a place where they were back in the 1990s.

So I think it's going to be a bit harder for them to go much higher from here. And particularly when you think the Central Banks are still looking to cut rates, and we think we'll see another rate cut from the Fed in September and the Bank of England in August.

And I think as well, when you get a bit more visibility on where we're going on tariffs as well, I think the Fed can then focus more on growth risks too. And also it's worth locking in those decent yields now, as I've shown in that chart on real yields. Now one of the catchphrases that we've been using is that we 'diversify our diversifiers.' So quality bonds may be challenged a bit when the focus is on that rising debt, but they are great when the focus is on recession risks.

Gold, on the other hand, is a good hedge when the focus is on deficits or inflation or geopolitical conflicts, as we've seen in recent weeks. And infrastructure is a good hedge against inflation as well as a recession, too, because it has these predictable cash flows that are often linked to inflation.

And we like alternatives in general as portfolio diversifiers. But Georgios, in recent weeks, the Israel-Iran conflict has shocked investors and of course has added as well to the complexity. So how do you incorporate this in your thinking?

Yes, the Israel-Iran situation continues to evolve and both sides continue to mourn the loss of life. Now, when it comes from a markets perspective, essentially what we have seen is a rise in risk premia in oil markets to begin with. Now, looking forward, we don't anticipate a sustained increase in oil prices from current levels unless there were to be an interruption in terms of oil supply. When it comes to other financial markets, risk premia are still holding up on a relative basis. Now, in the meantime, investors may continue to seek other opportunities in order to hedge against tail risks.

We see that demand for gold continues to hold up quite strongly. On the other hand, I would also like to point out hedge funds as an asset class. As you can see on screen, what we see through hedge funds is the ability to mitigate against downside risks and minimise drawdowns.

So essentially through longer periods of time, they continue to demonstrate resilience, as does private infrastructure, as you mentioned, which can behave quite well even during more challenging macroeconomic times.

So we've come to our final section of this roundtable, and in our Investment Outlook we presented a long list of interesting high conviction themes, and of course, every client will make their own choice. But may I ask all of you to tell us your favourite and Fan, can I start with you?

Yes, my favourite theme is China's Innovation Champions. And after the DeepSeek breakthrough, we expect the Chinese tech leaders in expanding AI ecosystems will continue to lead re-rating of the equity market, given their valuation discount to the global peers. Our theme High Quality Asian Credit is my another favourite theme given the attractive income and diversification opportunities in the Asian credit market and quality bonds in Asia which benefit from central bank easing and the resilient domestic fundamentals of the regional economies.

Fan, if I could add, I think my favourite two themes are North American Re-industrialisation, because we see the inflow of capital into the US, to re-industrialise the manufacturing base here for the next wave of technology is huge and that's going to be beneficial for markets. And second, obviously AI enablers where I think we are going to see that second wave of artificial intelligence really drive productivity and profitability and a new wave of products and services that are going to be positive for markets.

For me, Energy Security is particularly relevant in light of elevated geopolitical risk, but also given the rise in oil prices. We've also talked about AI, which will be more prominent in the years to come. And that also requires a steady and reliable stream of energy. My second theme is Streaming and Subscriptions. Essentially, what we have seen is an increasing amount of companies being able to channel their content to a wider range of audience, and essentially that creates a more predictable stream of earnings that is also quite appealing at times of macroeconomic uncertainty.

Two great themes there, Georgios. If I can add two more, I'd say the Silver Economy and Demographics, because I am convinced, that baby boomers are really starting to open their wallets on the back of higher rates because they have low debt and really record net worth. And, as well as this spending, there's also going to be an impact on healthcare there, too. And for my second theme,

I will say Global Financials. And the reason why is I think there're two tailwinds here. One is actually some of those gains from productivity that we've talked about. And the second is more of a vanilla cyclical benefit. And that is coming from steeper yield curves, which also tend to benefit financials too.

And those are all great choices. And structural themes of course, can help look through volatility. And to handle that volatility in addition to themes, what we do is we focus on active management, on multi-asset diversification and on quality assets to help us tap into that wide opportunity set that we've talked about, whilst keeping portfolio risks in check.

So all that remains is for me to summarise our four priorities for investors for this quarter. Firstly, of course, we rebuild that equity exposure, because we are positive about the opportunity set, but we broaden it, from a geographical and from a sector perspective. Secondly, we want to capture those exciting opportunities globally again in AI, especially in adoption and monetisation. Thirdly, we want to mitigate the volatility and the uncertainty, both from a portfolio perspective and in the currency markets with alternatives, multi-asset solutions and of course volatility strategies as well. And Fan has explained how we tap into Asia's domestic resilience as well as the structural growth in the region.

Now, we think those priorities do find the right balance between the risk and the opportunities. And of course, it allows clients to stay in the markets, which is important because in spite of all of the volatility and the uncertainty, there are still a lot of opportunities that we don't want to ignore.

And that brings us to the end of the roundtable discussion.

So thank you very much, Fan, Georgios, Jonathan, and Jose, for your insights and the interesting discussion.

And thank you all for watching.