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## **Q4 2025 Investment Outlook – Seizing the AI Liftoff, Riding the Fed Cuts**

Rapid advancements in AI innovation and expected Federal Reserve rate cuts are outweighing overly negative concerns about the impact of US trade tariffs and policy uncertainties, according to HSBC Private Bank.

The bank has advised its high net worth and ultra high net worth clients that the wait for Fed rate cuts will soon be over, which will help both economic activity and market sentiment. In its latest Investment Outlook, Seizing the AI Liftoff, Riding the Fed Cuts, it added that even if US economic growth slows a little, AI-led innovation is set to boost investment, productivity and market valuations.

Nevertheless, it is important to not ignore the headwinds and the risk of market volatility. HSBC Private Bank recommended to clients three ways to diversify: a sector rotation in US equities to address growth, inflation and valuation challenges; geographical diversification, including into Chinese tech stocks which trade at a discount compared to global peers; and asset diversification, particularly into highly rated bonds and alternative assets.

Its four priorities going into Q4 2025 are:

- **Position for a new round of Fed cuts:** The Fed's focus is turning to slightly lower growth, which is positive for bonds but likely to lead to further US dollar weakness. Lower interest rates will encourage investors to put their cash to work.
- **Capture expanding opportunities in AI:** AI innovation is in a real liftoff phase, and there is plenty of evidence of AI helping firms cut costs and improve services across industries. Firms across the AI ecosystem have plenty of earnings upside.
- **Mitigate currency and portfolio risks:** A multi-asset approach can manage portfolio volatility amid uncertain markets. Alternative assets and volatility strategies also provide downside protection in equity, bond and currency markets.
- **Ride on Asia's policy tailwinds and structural trends:** Asia will benefit from AI adoption, corporate governance reforms, China's demand-side stimulus and supply-side reform, which offer positive drivers for Asian equities and bonds.

**Willem Sels, Global Chief Investment Officer at HSBC Private Bank and Premier Wealth, said:** "It has been popular to take a bearish view on the US, with concerns over unconventional policies and rising debt. Yet, US economic data has generally surprised on the upside, and the latest earnings season had a near-record percentage of upward surprises. Even as US economic growth slows a little, the stock market should do well as long as tech innovation continues."

**Cheuk Wan Fan, Chief Investment Officer, Asia at HSBC Private Bank and Premier Wealth, said:** “Asian economies have shown remarkable resilience amid trade uncertainty so far this year. Asian equity and bond markets offer a diverse opportunity set for growth, income and diversification, powered by China’s AI innovation and supply-side reforms, Asia’s corporate governance reforms, rising dividend yields and a domestic consumption boom.”

### **Notes to Editors**

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