Video Transcript

HSBC Investment Outlook Q3 2025 (Issued 22 May 2025)
Tap into Asia's Domestic Resilience and Structural Growth
Cheuk Wan Fan

The speedy US-China agreement on a 90-day tariff reprieve and ongoing trade talks between the US and its key Asian trading partners support recovery of risk sentiment across the Asian markets from the April lows. The temporary rollback of US tariffs represents a substantial de-escalation of trade tensions, supporting our mild overweight position on EM Asia equities. We believe lower tail risks of US-China decoupling should help stabilise business sentiment and investor confidence in Asia, reducing the disruptions caused by elevated tariffs on the supply chain stability in the region. We stay overweight the Asian stock markets supported by strong domestic drivers and policy stimulus, including China, India, and Singapore.

Given the tariff pause is only temporary and the outcomes of trade talks remain uncertain, we expect Asian policymakers will stick with an accommodative policy bias to provide further monetary and fiscal stimulus to boost domestic demand to counter external headwinds. Hence, our fourth investment priority for the third quarter is to tap into Asia's domestic resilience and structural growth to mitigate global uncertainties. We stay focused on domestically oriented sectors and quality industry leaders.

Navigating persistent global uncertainty, our theme on China's Innovation Champions focuses on structural growth opportunities from China's accelerating AI disruption and adoption driven by DeepSeek's open-source innovation. China's policy priority and AI investment boom is supercharging strong growth of AI enablers and adopters in the ecommerce, social media, online gaming, software, smartphones, semiconductor, autonomous driving, and robotics sectors. We favour national champions across the AI value chain, from semiconductors, software to infrastructure, AI cloud & agents and physical AI. Even after the DeepSeek-led re-rating of the Chinese AI plays, the tech sector is still trading at significant valuation discounts to their US peers. China's continued AI breakthrough should pave the way for their valuation gaps to narrow over time.

We have launched a new theme on Asia's Enduring Titans, which are distinctive industry champions which are well positioned to weather the global headwinds with their proven business models, outstanding competitive position, strong balance sheets, powerful brands, and high quality management. They offer attractive opportunities for long-term investors who are looking to build core Asian equity holdings with durable growth, earnings resilience, and financial stability. We favour select Asian industry giants in the technology, financials, and consumer discretionary sectors which are priced at attractive valuations. The S&P Asia 50 Index, which covers the 50 largest blue-chip market leaders in Asia, is only trading at around 11x forward P/E at a notable discount to the global peers.

Our theme on Power Up Asian Shareholder Returns continues to position in quality companies that improve ROE by paying high dividends, increasing share buybacks, and taking value-adding corporate actions. Asia ex-Japan's ROE is forecast to rise from 10.8% in 2024 to 12.5% in 2026, driven by higher dividend payouts and more share buyback activities. Dividend yields across Asian equity markets remain attractive, with Singapore and Hong Kong offering average dividend yields at around 4.0%, well above 1.9% of MSCI World. Share buybacks are growing at a record pace in Asia, especially in Japan, mainland China and Hong Kong. In Japan, share buybacks in 2024 surged to around USD120bn, doubled that of the amount in 2023. For HSCEI, the net cash yields generated from dividends and share buybacks are expected to surpass 5% for 2025.

In response to the tariff challenge, Asian central banks are expected to further loosen their monetary policies amid continued disinflation trend and growth uncertainty. We expect Asian credit markets will benefit from the global diversification flows and strong local investor demand. We stay overweight Chinese hard currency corporate bonds and Indian local currency debt. Our theme on High Quality Asian Credit focuses on Asian IG credit, including Japanese and Australian IG bonds, Asian financials, including bank papers in Australia, Singapore, and Thailand. We like quality Chinese SOE issuers, Chinese TMT bonds which benefit from the AI investment boom and Macau gaming credit with strong fundamentals.