

HSBC Investment Outlook – Q4 2025 (Issued 04 September 2025)**Willem Sels + Kevin Lyne-Smith****Willem Sels**

I'm here with Kevin-Lyne Smith to discuss our equity strategy and our investment themes. And of course, we have had quite a bit of volatility, but also a very sharp rebound in equity markets, in part because of the clarity that we now have to some extent around tariffs, but also – and mainly actually – the AI trade.

Now we think AI is in a liftoff phase, but I still get questions from clients as to how do companies actually make money in this space.

Kevin Lyne-Smith

Well that's natural Willem.

And in the second quarter earnings, we've seen, you know, it's really underlying our positivity towards the sector. We've seen stronger earnings coming through from the semi companies, those companies exposed to data centres offering cloud services as well as media and internet services.

And that brings me to the three areas of focus.

First of all, in our theme, the Evolving AI Ecosystem we see that we've sort of skipped beyond the large language model companies, and we're really focusing now on the broadening out of the AI ecosystem. So we're looking at things like software as a service, hardware, infrastructure, and also the utility side of things.

The second area we like to focus on is Aerospace and Security in our theme. I think this is interesting.

We've seen obviously a lot of geopolitical uncertainty over the last few years. And what we're seeing is because of the last thirty years, we've had a contraction in the industry as spendings decline. We're seeing now there's less competition. But for those players that are still around, there's a lot of spending going on.

The order books are very strong. We've also got a lot of interesting new technologies as well. So there's some clear winners in there. And we're seeing the outlook remains robust for the next two years in that sector.

I think the third area we're particularly interested in is within the comms sector.

We talked about comms, particularly the media and internet services area. Obviously, it's really coming out to the generation X, generation Z and the millennials demand for subscription and internet services.

We see that in terms of our theme, which is Subscriptions and Streaming, where that demand is picked up, that means they don't have to buy assets. It works out cheaper. There's lots of pluses, a nice broadening out to the other generations that see all the benefits that come from that particular idea.

Willem Sels

Now, you mentioned infrastructure, which is a topic that we actually have been talking about for quite a while and the interplay in particular between the data economy, electricity, the need to build out infrastructure.

Now, it's no surprise that people have jumped on a topic like AI, a structural trend in an environment where the cyclical outlook is a little bit less certain. Now, I don't think you need to become too pessimistic about the cycle either, because there are two factors that are very supportive.

One is the re-industrialisation of North America, and the second one is, you know, the Fed rate cuts.

How are those affecting your investment strategy, Kevin?

Kevin Lyne-Smith

Let's take them separately. So first of all we'll look at the first theme: industrialisation.

We've got two themes running at the moment. One is the Re-industrialisation of North America. The second is Robots and Automation which don't make immediate bedfellows to most people's mind.

But when you think about it, if you're going to move production back to your home country and in a developed market, then the first thing you're going to do is, one is going to drive industrials because you're got to build, you know, you need construction, you need machinery, and another equipment.

The second thing: to be economic, you've got to automate as much as possible.

So that is a clear combined transfer that re-onshoring and the need to secure supply chains is driving that trend together with the pick up in China. Don't forget China consumes half the world's industrial robots. That's starting to pick up as well. So those two themes work very nicely together.

Secondly, if we look at the financials, we've got a Global Financials theme. They've reported the last two quarters have been very good and beat expectations in the last quarter. We see strong trading revenues, lot of M&A picking up now.

But also things like issuance is being particularly good in those areas. But we also see pickups in other areas of the business. So overall a quite positive outlook for financials going forward.

Willem Sels

Now financials also have another quality and that is that style diversification. And especially for technology and growth style heavy portfolios. We think that in fact the equity markets can outperform the economy to a certain extent.

And what I mean by that is the data and technology sector only account for 8.5% of the US economy, but they account for 48% of the equity markets. So clearly technology will continue to be very important for the equity market. We are overweight technology communications, industrials and financials, which is two thirds of the market.

And therefore we continue to be overweight on the US. But what about opportunities in the rest of the world, Kevin?

Kevin Lyne-Smith

Great question. Obviously Europe, we've looked at that in the past. We've had an overweight but we are neutral at the moment. I would say the good news is in the price, there's not a lot of new catalysts in the mid-term.

And, you know, Germany's been the standout. Prices have risen well there. But the new news is sort of nothing new there.

The more interesting story is Asia. Obviously, Asia has a big tech industry that balances with that of the US, but it also has a lot of other industries that are doing very well, up and down global names. So there's three particular topics I want to focus on here.

And with our China Innovation Champions theme, we really focus down on the industries like you talked about tech. So I won't repeat about that, but also comms and other areas.

One area I'll call out and that doesn't automatically come to mind with those is healthcare. We've seen a lot of innovation coming out in the last few years out of the biotech and pharmaceutical sector, so much so that Western companies are now licensing Chinese products to fill their pipeline, so really seeing a boost there. And the second area I would like to talk about is Asia's Enduring Titans, which is a theme we have.

What we're talking about there is looking at the big blue chips, you know it's often forgotten as there is so much noise about the US – the Mag 7. But actually in Asia, China and other countries have these very large companies.

They're very strongly in IT in other areas. consumer products, services. They have very good managers, strong brands, they are global. They have huge efficiencies and economies of scale. So they're really interesting companies that, you know, shouldn't be neglected in terms of a portfolio.

The final area is, powering up Asian shareholder returns. Now what we mean by this is there's been a lot of movements on things like governance over the last few years that really improved things. And I think where we see it is things like better management and better management of the balance sheets and the cash flow, but also improvement in paying dividends and share buybacks.

So that's really improved the perception of companies within Asia.

Wilem Sels

And adding to Asia and China in particular, of course, helps you diversify and helps you capture those good valuations. And we see more flows going back into China.

Apart from China we are overweight on Singapore a defensive market with good dividend distributions. We have downgraded Indian equities to neutral because of cyclical headwinds. But we don't think those will last. The structural support is there.

So Kevin, if you had to summarise your view of the market, the investment opportunities, what would you say in just a few words?

Kevin Lyne-Smith

I think overall what we'd say is the current environment is less about sectors. It's more about stock picking. Within each of the sectors there are particular champions we would identify. But the overall theme relates to AI and those companies that are positioned well to benefit from the AI megatrend that's developing.

Wilem Sels

Couldn't agree more.

We stick with the AI trade in spite of the valuations. We address those valuations by looking for some other sectors like financials and looking for other markets where you can play AI, like China. Volatility management of course, and multi-asset diversification.

Thank you very much, Kevin, for sitting down with me.