HSBC

Video Transcript

HSBC Investment Outlook – Q4 2025 (Issued 04 September 2025)
Willem Sels

Our Investment Outlook publication for the final quarter of the year is full of interesting topics, but the list has changed because we think markets will also change their focus.

Earlier this year, investors were worried about the US debt pile, intrigued by the dedollarisation question and feeling uncertain about trade tariffs. As we now have a bit more clarity about the tariffs, their effect on the real economy will now be one key market topic. But the biggest drivers of sentiment should be AI and the resumption of the Fed rate cuts; and we see them both as clear positives for risk appetite.

The tariffs may cause a mild US economic slowdown, especially in consumption, as rising costs of imports are gradually passed on by companies, leading to a mild increase in inflation. Coupled with lower job creation, that will probably hit consumption and consumer-related stocks. But while that sounds like a negative, we should highlight two positives.

Firstly, weaker labour markets are causing the Fed to change its focus from inflation risks to growth risks. And that should lead to a restart of the Fed rate cuts from September, supporting bond markets while causing some further USD weakness.

The second point is that weaker consumption is offset by areas of more solid activity. Trade tariffs and the bonus depreciation on capital expenditures are incentivising US and foreign companies to invest more in the US. And CEOs will probably accelerate this re-onshoring activity as the Fed cuts reduce funding costs.

One further consequence of that is that M&A, IPO and capital market activity should also be boosted, and that helps the financial sector and activity in the private markets. Now, beyond re-onshoring, of course, AI-led innovation is a strong structural driver of investment activity and rapid productivity gains.

The second quarter earnings season was full of examples of AI boosting revenues, allowing companies to cut costs or accelerate the rollout of new products and services. We don't think that it was a coincidence that a near record 81% of companies beat earnings expectations; we think AI helped a lot here, even if some companies still find it hard to quantify the impact. The weaker US dollar also helped earnings and should continue to support those profits.

A final reason to be optimistic about US stocks is that the stock market is not the economy. As you can see, the activity around technology and data accounts for less than 9% of US GDP, but it is worth 48% of the S&P 500's market cap. So even with the economy slowing a little bit, stocks should continue to do well if the AI liftoff continues as we expect.

But the concentration of tech within US equity markets, together with the 63% weight of the US in global stock indices, and the US dollar weakness all argue in favour of some diversification.

Now, as I mentioned, value oriented stocks like financials and industrials are good diversifiers for growth-style sectors such as technology and communications.

As for regional diversification, we overweight the equity markets in China, Singapore and the UAE. Investors can find very innovative companies in China that trade at big discounts to western companies and the anti-involution initiatives, which will attempt to reduce overcapacity and ease deflation pressures, are a clear positive, as they should raise Chinese earnings prospects.

Both our belief of the AI liftoff and the desire to diversify are also reflected in our high conviction investment themes. Beyond our Evolving AI Ecosystem theme, we continue with other themes such as Energy Security, Streaming and Subscriptions, Global Financials, China's Innovation Champions and Asia's Enduring Titans.

So what are our priorities for investors?

Firstly, we add to quality bonds to position for the new round of Fed cuts. As cash rates fall, bond yields should come down too so we want to lock them in now and put cash to work. Bond / equity correlations have dropped as growth slows, and that makes bonds important portfolio diversifiers.

Secondly, we capture expanding global growth opportunities in AI adoption and monetisation – valuations have run up, but we address this by broadening our investments across the ecosystem and across the world.

Thirdly, we mitigate currency and portfolio risks with alternatives, multi-asset and volatility strategies. And that includes private markets where we find many innovative companies to complement what we can find in public markets.

And finally, we ride on Asia's policy tailwinds and structural trends. Central bank rate cuts and China's demand-side stimulus are positives for the cyclical outlook. And meanwhile, structural growth trends like AI innovation, China's supply-side reform and corporate governance reforms across Asia are starting to bring back foreign flows by supporting the structural outlook.