Video Transcript

HSBC Investment Outlook – Q2 2026 (Issued 12 March 2025)
Willem Sels

There have been many shifts in market narratives in recent months, from geopolitical uncertainty to concerns over fiscal deficits, Fed independence and the role of the US dollar.

And on the topic of AI, market discussions have moved back and forth between fears that the AI is overhyped, to concerns that AI would be such a game changer that it would cause mass unemployment. But in spite of all of these questions, risk assets have done well. And that's because those investors fears are not materialising in the hard data.

In fact, the fundamental picture for investors remains quite constructive. Clearly, the conflict in Iran creates uncertainty and could lead to continued volatility in the short term. But for the medium term, the cyclical outlook is positive, as economic growth is fuelled by strong investment activity and fiscal support, not just in the US, but also in Asia and even to some extent in Europe.

Business sentiment is picking up as inflation is in check, and trade is more resilient to tariffs than investors had thought. And all of that results in near record profit margins and continued strong earnings growth, which is broadening out well beyond IT into other sectors.

So our core view has not changed. We continue to see a broad opportunity set across sectors and geographies in private and public markets. At the same time, we're bound to see continued volatility, as the impact of AI and geopolitics remain hotly debated.

So how do we tap into this continued growth opportunity set amid the changing narratives?

Firstly, we complement AI exposure with cyclical opportunities. As AI applications multiply, investments should continue benefiting the semiconductor, infrastructure and electricity plays. And at the same time, we're not overly worried about AI start-ups ruining the business model of many incumbents in software and other sectors, because incumbents can also innovate and benefit from AI, especially those with entrenched corporate system integration and accountability.

Many tech companies are now trading at much cheaper levels than just a few months ago at very reasonable valuations. But we continue to diversify and have added to our cyclical exposure amid that current healthy economy. So beyond IT, we also overweight Industrials, Financials, Communication services and Materials.

Secondly, we unleash the power of income because we see stable income both as a source of returns and a way to help reduce portfolio volatility. Fewer central banks are cutting interest rates, and the Fed is probably already done with its cuts, as we believe that the Fed will remain independent and the US economy does not require more cuts.

That means that we focus on clipping coupons and finding the most attractive parts of the bond spectrum. We prefer investment grade and emerging market bonds over high yield, and we keep bond maturities close to benchmark.Active investors' can tap into other parts of the bond universe too, and profit from volatility.

Thirdly, we manage volatility with alternatives and multi-asset strategies. Many unlisted companies are seeing rapid innovation and exciting growth thanks to AI, which benefits private market investors.

Hedge funds separate the winners from the losers in AI and also find opportunities stemming from the changing market narratives and divergent central bank policies which drive currency volatility.

As the US dollar may remain volatile, global multi-asset strategies are a good way to diversify currency exposure and to tap into the broadest possible opportunity set. We think the best region to diversify US heavy portfolios is Asia, especially as the opportunities there are underpinned by strong domestic demand, supportive policies and attractive valuations. So our fourth priority aims to tap into Asia's innovation and income.

This barbell strategy has worked well in recent months. On the one hand, it invests in Asia's exciting growth companies, leaders in AI and advanced technologies. And on the other hand, it is looking for plenty of income from high quality dividend paying stocks and opportunities to pick up attractive yields in the bond market.

Amid rapidly changing narratives, we think it's important not to be swayed by excessively pessimistic or exuberant views that are not supported by the data. We think it's better to tap into the many areas of steady earnings growth while building portfolio resilience to weather the headline risks.