HSBC

Video Transcript

HSBC Investment Outlook – March 2025 Monthly View
Willem Sels

So far this year, US equity markets have underperformed global indices while the US dollar is down. So what is causing this? Well first there is the fading momentum of technology stocks and of the Magnificent Seven which had been leading the US stock advance. And without that leadership, US momentum naturally fades.

The trigger for this was the DeepSeek news, which has been a challenge for mega caps and chip producers, but should be good news for the AI adopters. A wider choice of models that are cheaper to operate should accelerate applications and raise productivity across sectors. So it's no surprise that investors are rotating into other sectors, and that the forgotten 493 stocks are finally catching up. We support that broadening of exposure, and we continue our policy of sector diversification beyond IT into financials, health care, communications and utilities.

Now, as investors ask more questions about whether the US valuation multiple, especially for technology is warranted, we continue to diversify geographically as well. We already hold overweights in Japan, India and Singapore, and earlier this month we upgraded Chinese stocks, trimming the extent of our US overweight.

The technological advances of China are clear for all to see, and market sentiment is further boosted by the policy pivot towards a friendlier and more supportive government stance to the private sector and technological innovation. And with so many investors being underweight on Chinese technology, which trades at low valuations, we think that this sector can provide further positive rerating of Chinese stocks. We have also upgraded UAE equities to overweight. Now that's a relatively small equity market, but it is becoming more popular with portfolio managers thanks to its housing market boom, the strong non-oil GDP growth, its sovereign led AI and tech infrastructure projects, and manageable tariff risks.

As for Europe, we remain cautious on eurozone equity markets, but we believe that sentiment towards Germany may improve following the elections because the spending could increase somewhat and many German corporates produce much of what they sell in the US locally, thereby reducing tariff risks. We also diversify by keeping our gold overweight our alternatives allocation, and by adding to our bond exposure in two specific areas.

Firstly, we think that UK gilts are attractive at current valuations compared to US Treasuries and in the context of the slow UK growth. We also upgrade emerging market hard currency corporate bonds particularly in Asia where we like the quality credit because of the improved regional risk appetite and fair valuations.

So while we think that there are plenty of good reasons to diversify across sectors, regions and asset classes, this is mostly because we think that global opportunities are broadening. To that extent, the US may feel indeed a little bit less exceptional than before, but we do not think that there are big risks of a sharp deceleration in the US growth. And because of that, and because there is no real challenger to the US dollar in our uncertain times, we also maintain our mildly positive view on the US dollar for the medium term.

Public