

**HSBC Investment Outlook – October 2025 Monthly View****Willem Sels**

We think equity markets have plenty of scope for further upside and we remain positive on risk assets. That's because of AI-driven innovation, the restart of the Fed's rate-cut cycle, better-than-expected US economic data and rising corporate activity – from M&A to dividend payouts and share buybacks.

Together, these forces create a supportive backdrop for US and global stocks, of course, but also for quality bonds – and that results in broad-based portfolio upside. AI optimism is fuelled by robust investment and demand across the AI ecosystem, with major recent announcements from some of the largest players in the US and China highlighting the scale of AI activity. And the industry-wide build-out of datacentres continues at pace, and earnings linked to the cloud are consistently exceeding expectations.

Now we are aware that some people ask whether AI investment has gone too far, but the evidence points to strong, sustained demand rather than oversupply. And for investors, that creates powerful opportunities not just in technology itself, but also in sectors that support the AI infrastructure and across the AI ecosystem. But even bulls like us need to diversify and recognise the risks.

Now, diversification, in our view, is not about reducing conviction – but it's about widening the opportunity set whilst also managing the risks. So we look for assets that not only have a positive outlook, but that should also be relatively resilient under the risk scenarios such as sticky inflation, a dip in growth, a pushback against high valuations or debt concerns.

Now you will ask where can we find these assets?

Now, on the equity side, we see geographical opportunities to diversify US exposure by going into Asia, with China and Singapore both showing strong relative performance recently. And their valuations, of course, remain attractive and their economic cycles are less tied to those of the US and they benefit from a weaker US Dollar. Sector-wise, we diversify US technology with financials and industrials, which have much lower valuations than technology, so they address that concern.

In fixed income, our conviction on quality bonds remains in place. Whilst the Fed is cutting rates again, yields on cash are likely to decline further, causing investors to look for places to put their cash to work. And due to the shape of the yield curve, we see particular value in the 7-10 year segment of the investment grade corporate bond markets, where investors can lock in stability and income. In addition, bonds provide a natural hedge should equity volatility return.

But for investors who worry about debt piles and sticky inflation, gold and infrastructure are good options. Finally, we continue to monitor currency exposure. And our overweight in US stocks naturally leads to dollar risks. And with the dollar trading on the weaker side, investors may want to consider FX diversification or partial hedging. And that can also actually lead to a pickup in income.