HSBC Investment Outlook – November 2025 Monthly View
Willem Sels

I'd like to discuss two points today. Firstly, how investors should react to the recent volatility; and secondly, our upgrade of Hong Kong stocks to overweight. A long list of issues have come together recently, including US tariffs on Chinese goods, circular AI deals, the US shutdown and two bankruptcies that triggered some questions about private credit markets.

Now we address all of this in our Monthly View, but we conclude that none of the above should trigger the end of the bull market. It's much more likely that we get a period of consolidation but followed by further upside. Consolidation, because many markets have run up quickly and some lower quality assets may have benefited too much. And that's why we downgrade high yield to underweight, for example, preferring investment grade and emerging markets bonds instead. But following any consolidation, we expect further upside. The current earnings season is already yielding a lot of positive surprises, and the earnings for the first quarter of 2026 also seem too pessimistic. We don't think that we're in the late cycle, and in fact, investment spending in AI, electricity, infrastructure, onshoring of supply chains and defence should all lead to a lot of activity, incentivised by a favourable US tax treatment. The only fly in the ointment is that this resilient US growth could lead markets to re-assess the number of rate cuts that they currently price in.

And for now, of course, Treasuries remain well supported during the shut-down, but there are limits to the bond rally after that. We have therefore cut our duration and now hold a preference for 'medium' maturities across investment grade and Treasury bonds. We continue to diversify our diversifiers, to manage potential dips. And one approach is to look at what assets could help address specific risks. For example, our underweight on consumer staples can help address growth and inflation concerns; infrastructure and utilities (which we upgrade to overweight) can help address inflation concerns and the growing risk of a shortage in electricity supply; whilst gold, partial hedging of USD exposure or FX diversification can help address the risk of USD debasement. We like holding a range of these assets because markets will probably worry about different risks at different times.

Finally, let's turn to Hong Kong and our upgrade of its stock market. Our principal concern up to now was the weakness in retail sales, but sentiment has been improving due to measures on tourism and a positive wealth effect. As for housing, primary sales have improved, while rental yields could rise above mortgage rates soon, supporting valuations.

The office market has seen some pick-up in activity, and the government intends to promote AI as a core industry. Stocks have already rallied – in part thanks to the jump in IPOs, but they remain relatively cheap.

So we think it makes sense to upgrade Hong Kong stocks to overweight, aligning them with the mainland China view.