

# Investment Monthly

## Policy uncertainty weighs on US equities

April 2025



### Key takeaways

- ◆ Amid higher policy uncertainty and an uptick in near-term inflation expectations driven by tariffs, we downgrade US and global equities to neutral and continue to broaden our sector exposure to IT, Communications, Financials, Industrials and Healthcare outside of the Magnificent-7 stocks. We leverage multi-asset strategies and quality bonds to balance risks and opportunities in the current environment and use gold tactically to enhance diversification.
- ◆ We have increased our exposure in Asia with overweight positions in China, India, Singapore and Japan, while the UAE also offers attractive opportunities. With more supportive policies towards AI-led innovation, consumption and the private sector, we raised our China's GDP growth forecast to 4.8% for 2025.
- ◆ While DeepSeek's breakthrough has aroused optimism in the tech space, we believe the downstream AI adopters and applications can better capture the opportunities than the semiconductor and hardware players in Asia, leading us to downgrade Asian IT to neutral and upgrade Consumer Discretionary to overweight. Communications Services should also be a beneficiary with its exposure to the internet, telecom and cloud industries, while Industrials can benefit from the rising demand for digital infrastructure. Asian Financials offer attractive valuations and dividend yield.



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Asset class	6-month view	Comment
Global equities	▶↓	While the healthy macro backdrop and innovation remain positive drivers for equities, our reduced exposure to US equities leads to a downgrade of global equities to neutral. We continue to look for opportunities across sectors and markets.
Government bonds	▶↑	Following an upgrade of UK gilts, attractive German government bond real yields warrant our upgrade of DM government bonds to a neutral position. Japanese government bonds remain unattractive from a yield perspective.
Investment grade (IG) corporate bonds	▶	Credit spreads are relatively tight but overall yields are attractive. We continue to see quality bonds as a good way of diversifying multi-asset portfolios by locking in current yields via longer durations.
High yield (HY) corporate bonds	▶	Spreads are tight and do not compensate for the economic risk. We remain selective in high yield bonds with a shorter duration preference for 3-5 years.
Gold	▲	Gold should be well supported by safe-haven flows and risk diversification demand by central banks amid global uncertainty and a more volatile USD.

▲ "Overweight" implies a positive tilt towards the asset class, within the context of a well-diversified, typically multi-asset portfolio.

▼ "Underweight" implies a negative tilt towards the asset class, within the context of a well-diversified, typically multi-asset portfolio.

▶ "Neutral" implies neither a particularly negative nor a positive tilt towards the asset class, within the context of a well-diversified, typically multi-asset portfolio.

Icons: ↑ View on this asset class has been upgraded; ↓ View on this asset class has been downgraded.

# Talking points

Each month, we discuss 3 key issues facing investors

## 1. How should investors position their portfolios for tariff risks?

- ◆ While the Magnificent 7 stocks have led the decline of US equities year-to-date, the broader market remains relatively stable. However, policy-driven uncertainty, particularly tariff concerns, has already resulted in lower business and consumer confidence, and could potentially hurt growth prospects. With reduced potential for US equities to outperform and the likelihood of further rotation out of the US in the short term, we downgrade US equities to neutral, leading to a neutral position of global equities as well.
- ◆ Nevertheless, we think any slowdown of US growth and earnings should be mild and temporary and continue to broaden our exposure to the “Forgotten 493” stocks across the technology, communications, industrials, financials and healthcare sectors, driven by long-term structural trends such as re-onshoring, innovation and energy security. We also prefer services over goods to reduce exposure to tariff risks.
- ◆ Multi-asset strategies and quality bonds remain critical to balance risks and opportunities in the current environment. We remain overweight on UK gilts and GBP/EUR investment grade and also upgrade government bonds to neutral on the back of a surge in German Bunds’ real yields. Gold remains a good diversifier amid rising uncertainty.

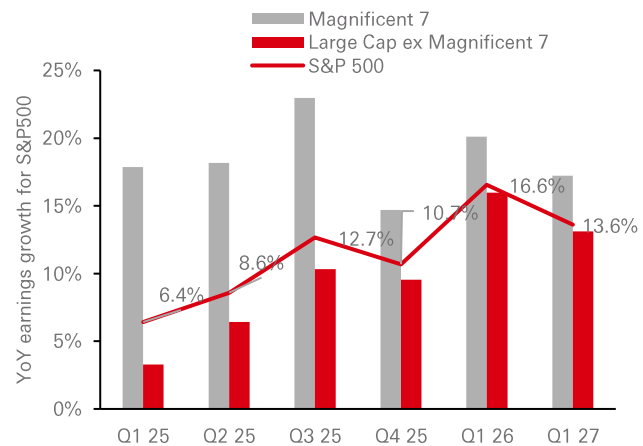
## 2. Where should investors put their money outside of the US?

- ◆ We continue to diversify into Asia because of its diverse growth drivers and policy-driven momentum. In China, elevated global trade uncertainty has triggered more supportive policies towards AI-led innovation, consumption and the private sector, supporting an upgrade of our China’s GDP growth forecasts to 4.8% and 4.5% for 2025 and 2026, respectively.
- ◆ In Japan, wage growth continues to support the reflation trend while corporate governance reforms present appealing opportunities via increased dividend payouts and share buybacks. India and Singapore are relatively insulated from tariff threats and boast solid structural drivers. The recent pullback in Indian equities presents a tactical opportunity, with the urban tax relief measures as a catalyst.
- ◆ European equities are buoyed by improving earnings expectations around fiscal stimulus but risks around implementation and trade policy persist. So, we remain neutral and look for opportunities in Technology, Industrials, Financials and Healthcare. The UAE has recently been added to our preferred list due to its positive structural growth, improved cyclical momentum and booming housing market.

## 3. Does technology present the best opportunities in Asia?

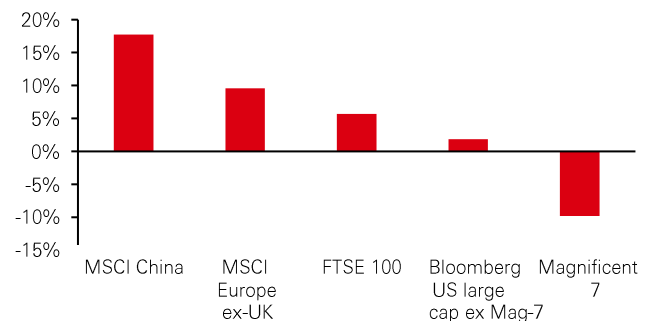
- ◆ The rapid rise of DeepSeek is unlocking a new phase of opportunities across sectors in Asia, restoring business and consumer sentiment. As we believe AI adopters and applications should benefit more than semiconductors and technology hardware from this wave of AI-driven opportunities and are less exposed to US tariff risks, we downgrade Asian IT to neutral.
- ◆ We believe the most direct beneficiaries of accelerating AI adoption should be the consumer discretionary (e-commerce, cloud and EV), and communications services (internet, telecom and cloud) sectors. The former also benefits from China’s forceful consumption-focused stimulus (e.g. 30 special consumption boosting measures). The rising demand for digital infrastructure also makes Industrials a bright spot to invest in.
- ◆ Given attractive valuations at 9.2x for 2025e P/E and a compelling dividend yield at 4%, we move Asian Financials to an overweight position. To capture better opportunities in this space and the consumer discretionary sector, we reduce our exposure to Utilities.

Chart 1: Year-on-year earnings growth is below 10% and may take some time to reaccelerate



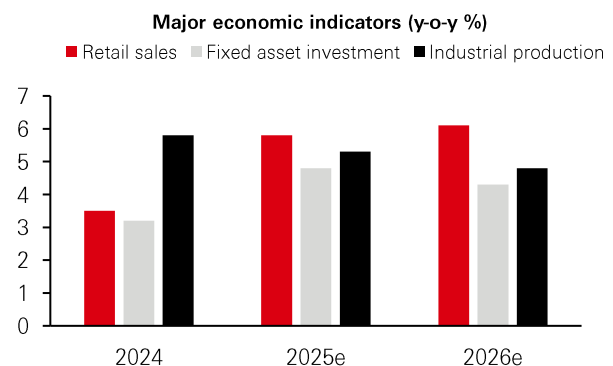
Source: I/B/E/S, HSBC Global Private Banking and Wealth, as at 24 March 2025.

Chart 2: Equities outside of the US have performed better (2025 YTD performance)



Source: Bloomberg, HSBC Global Private Banking and Wealth, as at 24 March 2025. Past performance is not a reliable indicator of future performance.

Chart 3: Consumption is expected to be a key growth driver in 2025 and 2026 in China



Source: HSBC forecasts, HSBC Global Private Banking and Wealth, as at 24 March 2025. Growth in nominal terms for retail sales and fixed asset investment; growth in real term for industrial production.

# Asset Class Views

Our latest house view on various asset classes

Asset class	6-month view	Comment
<b>Global equities</b>		
Global	▶↓	While the healthy macro backdrop and innovation remain positive drivers for equities, our reduced exposure to US equities leads to a downgrade of global equities to neutral. We continue to look for opportunities across sectors and markets.
United States	▶↓	Our downgrade is driven by increased tariff and policy uncertainty, which may slow down economic growth. However, we still see selective opportunities in IT, Communications, Financials, Industrials and Healthcare outside of the Mag-7 stocks.
United Kingdom	▶	Despite undemanding valuations, elevated government yields and likely spending cuts are obstacles to UK equities while a slowdown in the housing market weighs on consumer confidence.
Europe ex-UK	▶	Fiscal stimulus optimism driven by increased defence and infrastructure spending efforts should support the improving economic outlook, but trade frictions and slower global growth remain challenges.
Japan	▲	Favourable wage momentum is positive for the reflation trend while corporate governance reforms support stocks. We prefer domestic sectors including banking, consumption and technology.
Emerging Markets (EM)	▶	Market expectations of rates staying high for longer and geopolitical uncertainty are headwinds for EM markets.
EM EMEA	▼	While we see attractive opportunities in the UAE, some economies in the region remain vulnerable to the external headwinds and geopolitical uncertainty. Turkey's political climate is causing some risk aversion among investors.
EM LatAm	▼	We see increased challenges for Mexico, including trade tariffs and the border issues with the US, while Brazil's rate hikes remain a headwind.
<b>Asia ex Japan equities</b>		
Asia ex-Japan	▲	AI innovation, domestic policy support and improved earnings visibility warrant a strong earnings growth outlook for the region led by China, India and Singapore.
Mainland China	▲	Supportive policies towards technological innovation, consumption and private companies remain key growth drivers. We prefer AI enablers and adopters, select consumer companies, and quality SOEs paying high dividends.
India	▲	A rebound in growth provides a backstop for corporate earnings. Valuations have eased and we prefer large-cap stocks in the financials, healthcare and industrials sectors.
Hong Kong	▶	Property market overhang and muted retail sales remain headwinds for Hong Kong equities. We prefer quality developers and undervalued high dividend stocks in the insurance and telecom sectors.
Singapore	▲	We remain overweight on Singapore equities due to their attractive valuations and dividend yield.
South Korea	▶	South Korea is not in a strong position to benefit from the accelerating AI adoption trend due to its higher exposure to semiconductors and hardware companies. Policy uncertainty and US tariff exposure remain headwinds.
Taiwan	▶	US tariff hikes could impose downside risks on semiconductor exports, so we maintain a neutral stance.
<b>Government bonds</b>		
Developed markets (DM)	▶↑	Following an upgrade of UK gilts, attractive German government bond real yields warrant our upgrade of DM government bonds to a neutral position. Japanese government bonds remain unattractive from a yield perspective.
United States	▶	As we believe the Fed will resume policy easing in June based on moderating economic growth in H2, we continue to lock in current yields with a longer duration preference.
United Kingdom	▲	We believe the Bank of England will deliver gradual rate cuts as the last inflation hump is expected to be temporary. UK gilts are attractive due to attractive yields, favourable tax conditions and broader economic uncertainty.
Eurozone	▲↑	German government bond real yields are at the highest level since the European debt crisis. We take the opportunity to add exposure and upgrade our view to overweight.
Japan	▼	Given rising wage growth and policymakers' focus on current economic developments, we expect the Bank of Japan to continue its normalisation policy and hike rates to 1% by Q1 2026. JGB yields remain unattractive in our view.
Emerging Markets (Local currency)	▼↓	Higher bond issuance and a preference for Chinese stocks over bonds amid accelerating growth momentum are unfavourable to Chinese LC bonds while Indonesian LC bonds also face the challenge of high supply expectations.
Emerging Markets (Hard currency)	▶	We remain selective and generally focus on quality. Despite the recent USD weakness, we expect the currency to resume its uptrend in the medium-to-long term.
<b>Corporate bonds</b>		
Global investment grade (IG)	▶	Credit spreads are relatively tight but overall yields are attractive. We continue to see quality bonds as a good way of diversifying multi-asset portfolios by locking in current yields via longer durations.
USD investment grade (IG)	▶	We still expect a few rate cuts this year and see tactical opportunities in financials as well as non-financials.
EUR and GBP investment grade (IG)	▲	While credit spreads remain tight, total yields are attractive compared to history especially for longer-dated bonds. We remain overweight for their income and diversification opportunities.
Asian investment grade (IG)	▶	Against the backdrop of Asian central banks continuing their policy easing, we still favour Japanese and Australian IG bonds, Asian financials and Chinese hard currency corporate bonds in technology, financials and SOEs.
Global high-yield (HY)	▶	Spreads are tight and do not compensate for the economic risk. We remain selective in high yield bonds with a shorter duration preference for 3-5 years.
USD high-yield (HY)	▶	USD high yield provides a substantial overall yield, but equity volatility often feeds through into higher HY bond volatility.
EUR and GBP high-yield (HY)	▶	Even though high yield can offer a good pickup over government bond yields, we remain selective in this space and take shorter duration exposure.
Asian high-yield (HY)	▶	We continue to look for more forceful policy measures to further stabilise the housing market in China and maintain our cautious stance on its property sector. We prefer quality issuers in selective areas, such as Macau gaming in the region.
<b>Commodities</b>		
Gold	▲	Gold should be well supported by safe-haven flows and risk diversification demand by central banks amid global uncertainty and a more volatile USD.
Oil	▶	Any deterioration in global trade and economic activity triggered by US tariffs will prompt oil prices to fall. Spare capacity will also limit the upside.

## Sector Views

Global and regional sector views based on a 6-month horizon

Sector	Global	US	Europe	Asia	Comment
<b>Consumer Discretionary</b>	▶	▶	▶	▲↑	US consumers appear to be spending less and more selectively, whereas higher energy bills and inflation have buffeted European consumers. In contrast, Asian consumer sentiment continues to improve. We upgrade the Asian consumer discretionary sector as valuations are attractive relative to their history and other regions. In the West, luxury goods companies appear to be over the worst, but recovery is not guaranteed.
<b>Financials</b>	▲	▲	▲	▲↑	Globally, capital market businesses and large international banks are well positioned to benefit from a pick-up in activity. Net interest income will likely remain elevated as inflation remains stubbornly high, keeping interest rates elevated. Early positive signs show that advisory services, M&A, listings, bond issuance and trading flows are good in H1, if not the full year. Regional banks remain unattractive. We upgrade Asian Financials as we become more positive on China's economy and improving sentiment in the region.
<b>Industrials</b>	▲	▲	▲	▲	Industrials have started the year modestly even as company guidance was upbeat with many segments (machinery, construction, aerospace, trucks, trains and freight) expecting solid YoY growth from robust order books. Digital infrastructure and essential physical infrastructure related businesses seem set to benefit from a pick-up in capital spending.
<b>Information Technology</b>	▲	▲	▲	▶↓	We downgrade the Asian IT sector due to its heavy IT hardware exposure, which is facing weak pricing and overcapacity in some areas and prefer software and services. We remain positive on digital infrastructure, data centres, software, etc., but these segments will likely remain volatile as they react to news flow. The roll-out of digitally enabled products and services is generating an upbeat buzz across all sectors, even at this early stage. Some early signs of overcapacity in low-end semiconductors are hurting pricing.
<b>Communications Services</b>	▲	▲	▶	▲	In the US, the media and entertainment industry is forecast to have above-average sales and earnings growth for 2025, even after its stellar performance over the past two years. In Europe, the outlook for the telecom services sector is plagued by strong competition, low investment returns and a lack of pan-European scale. In Asia, the sector is more balanced with attractive valuations and easing regulation.
<b>Materials</b>	▼	▼	▼	▼	The demand outlook is expected to remain weak amid a challenging pricing environment. Persistently high energy and feedstock costs will likely squeeze margins and profits. Mining and chemical stock valuations are undemanding, but growth is likely to remain elusive. Tariffs remain a significant risk and are hurting sentiment. Refining, processing and chemical stocks remain unappealing in the short term.
<b>Real Estate</b>	▶	▶	▶	▶	Globally, the sector may be at a low point, although some markets and segments offer better potential than others. Retail space and older offices are particularly challenged as alternative consumer purchasing channels evolve and refurbishments costs are high. New office developments and housing are experiencing better supply-demand dynamics. The re-routing of supply chains is driving demand for new facilities in developed and some emerging markets.
<b>Consumer Staples</b>	▶	▶	▶	▶	Strong competition and consumers trading down have created a weak pricing environment for companies in many markets. Limited potential for sales growth and margin expansion, combined with high valuations relative to other sectors (in line with history), make the sector unattractive.
<b>Energy</b>	▶	▶	▶	▶	Unfavourable supply-demand dynamics are expected to lead to lower oil prices in the next 12 months, although the relatively higher cost of shale gas production may limit output and, therefore, oversupply-induced price declines. Gas demand will likely remain buoyant albeit volatile due to seasonal demand impacting prices. Low valuations, strong cash flow and high dividends somewhat offset the sector's speculative nature.
<b>Healthcare</b>	▲	▲	▲	▶	At the end of last year, the market over-reacted to negative news flow and uncertainty regarding US healthcare policy. The sector has struggled to regain its momentum. Valuations are undemanding. The US healthcare sector YoY earnings growth is forecast to lead all other S&P500 sectors in 2025. We remain bullish on European healthcare stocks. In Asia, the outlook remains more mixed, although the region is benefitting from new product announcements and launches.
<b>Utilities</b>	▶↓	▶	▶	▶↓	Energy demand trends remain very supportive as many economies undergo electrification of transportation, expansion of digital infrastructure, and rising affluence driving demand for air conditioning, freezers, etc. Utilities are already operating close to capacity, so substantial capital investments are required to upgrade generation capacity and transmission infrastructure. We downgrade the sector in Asia (and as a result global) as we believe there are better growth opportunities elsewhere.

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