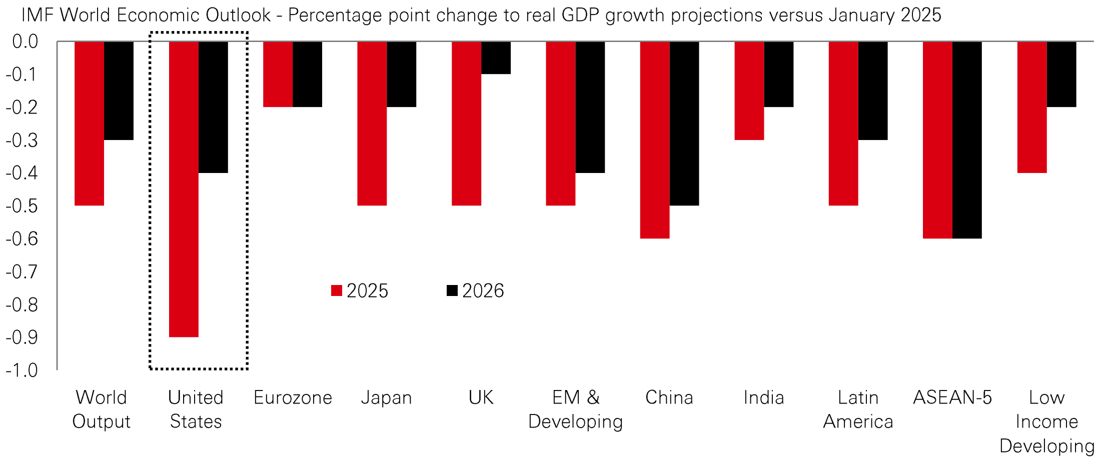
HSBC

Investment Weekly

28 April 2025

Chart of the week – Radical uncertainty and growth



The latest IMF World Economic Outlook (WEO) has delivered some hefty downward revisions to global growth forecasts for the next couple of years. As recently as January, the same economists were sounding upbeat on the outlook for both developed and emerging markets. **But faced with radical uncertainty in the macro and market environment in 2025, their tone has turned undeniably bearish**.

Near term, the WEO's reference forecast (based on data as of 4 April) shows global growth is projected to fall from an estimated 3.3% in 2024 to 2.8% in 2025, before bouncing back to 3% in 2026. **Compared to January's expectations, those projections represent a 0.5 percentage point fall for 2025, and 0.3 percentage points for 2026**. And there have been downward revisions for nearly all countries. At the extreme, the US has seen a sharp downgrade to its growth forecast for 2025, which now stands at 1.8%.

These revisions reflect recent disappointing data on real activity, and now major policy shifts in global trade – despite signs that the US administration may be considering a more dovish approach to negotiations. They follow a similarly downbeat report from the WTO the previous week showing the volume of world merchandise trade is projected to fall by 0.2% in 2025. That's almost three percentage points lower than it would have been without the recent policy developments.

Put simply, swingeing cuts to US growth expectations is **more evidence that we could be seeing the end of US exceptionalism**. And as the US catches down to the rest of the world, investors are likely to eye global opportunities that have long been out of favour. But with radical uncertainty thrown into the mix, it's likely to be bumpy out there.

Market Spotlight

Credit where it's due

Trade policy uncertainty and the recent pick-up in market volatility have caused asset class correlations to go haywire in recent weeks, with stocks and bonds both selling off. This presents challenges for allocators, given that US Treasuries have historically been a natural portfolio diversifier to stocks because of their usually uncorrelated relationship. But in the face of volatility, and a potential growth slowdown, one asset class that could be well positioned to fend off these headwinds is securitised credit.

Given its floating rate nature, securitised credit moves differently to other asset classes during economic cycles and offers an alternative source of risk adjusted returns. In particular, it can reduce portfolio duration, generate income and potentially enhance returns as spreads tighten.

For securitised credit, low correlation to regular fixed income, and lower correlation to stocks than corporate bonds could make it a key option for multi-asset portfolios. Given the high starting income levels and relatively wide securitised credit spread (compared to history), the combination of both factors could generate an attractive total return for investors.

Government Bonds →

US policy and the outlook for longer-dated Treasuries

Earnings Season →

What to expect from companies in Q1 and beyond

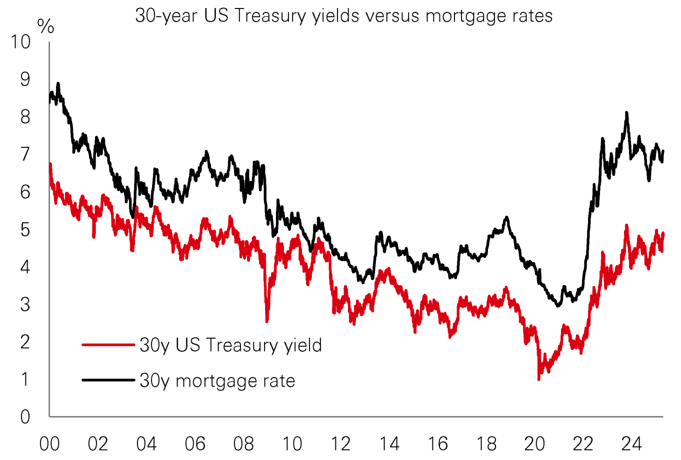
Asian Stocks →

How trade uncertainty is affecting sector profits

Yielding to pressure

While the sharp drop in US equities following President Trump's 2 April tariff announcements likely rattled the US administration, the spike in longer-dated yields was probably the deciding factor behind the 9 April decision to delay implementing reciprocal tariffs on most countries. The sharp weakening of the US dollar – as opposed to a desired gradual depreciation – likely played a role too. The same combination also seems to have led the administration to back away from suggestions that Fed Chair Powell's position was under scrutiny earlier last week.

Rising longer-dated US Treasury yields are important for two main reasons. First, with federal debt level already elevated and rising, **higher borrowing rates can undermine the administration's tax cutting ambitions**. Second, the 30y yield drives mortgage rates in the US. While off their recent 2023 highs, mortgage rates are still around 7%, a level not seen on a sustained basis since the early 2000s. Failure to deliver tax cuts, combined with higher mortgage rates, **would undermine already-fragile consumer confidence, adding to downside growth risks** – something that the US administration is keen to avoid.

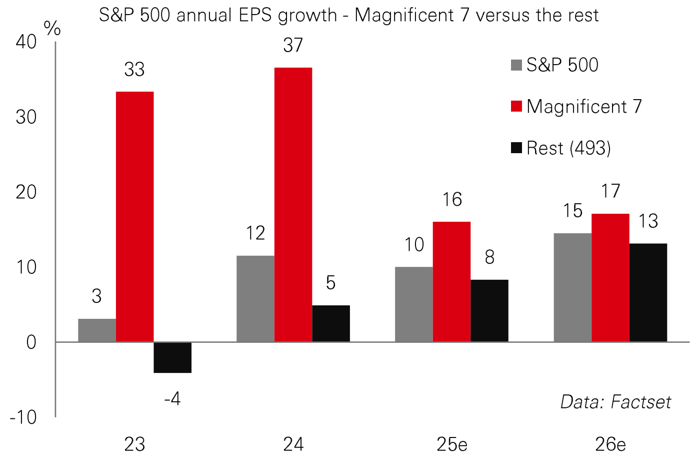


Uncertain earnings

Q1 earnings season continues in the US, and after another week of big market whipsaws, all eyes are on the profit growth outlook and the potential impact of tariffs.

Analysts expect year-on-year (yoy) profit growth in the S&P 500 of 10% for 2025 and 15% for 2026. For Q1, Factset data shows expected yoy growth of 7.2%. As normal, expectations have fallen ahead of results season, but with a quarter of companies having now reported their figures, the beats are less than average. Outlook statements have been vague to non-existent to boot, with more downgrades possible.

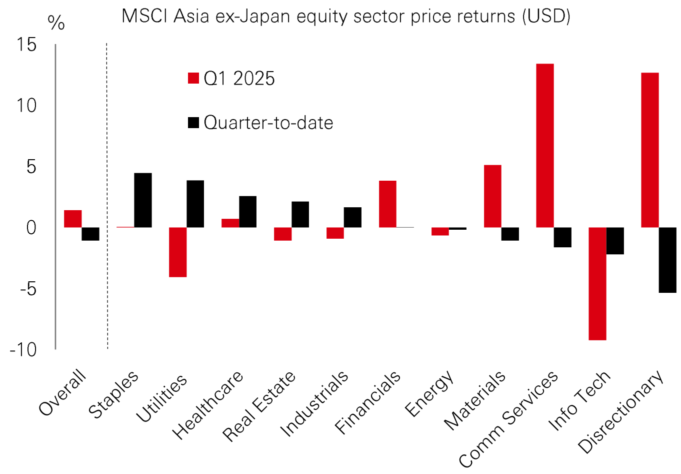
As for the Magnificent 7, analysts expect them to grow by around 15% yoy in Q1, which, while high, is less than half their growth rate last year. And while their profits continue to grow faster than the rest of the S&P 493, the gap is fading. The focus here is on competition/ capex spend and whether heady valuations remain justified. The Mag 7 index has fallen by 23% peak-to-trough this year. And while there could be selective value emerging within, it still trades on an elevated 12m forward PE of 24x. **Some equity analysts prefer the equal weighted index, where growth expectations are lower, but so is the 16x PE**.



Sector picks in Asia

A surge in stock market volatility across Asia has dented returns from a number of major sectors in Q2, with IT and consumer discretionary the hardest hit. Export-heavy industries like technology and consumer goods have proved particularly vulnerable to changes in global trade policy. By contrast, more defensive areas like consumer staples, utilities and healthcare have performed relatively well.

Despite the uncertainty, **analysts still expect average earnings growth in Asia ex-Japan to just about push into double digits in 2025-2026**. That's being driven by the region's burgeoning tech-related sectors, with optimism over long-term demand for semiconductors and hardware, and areas like AI, robotics, and e-commerce. Meanwhile, materials, financials, and healthcare are all potentially well-placed to benefit from regional infrastructure development, a resilient domestic backdrop, and the expansion of the middle classes – particularly in areas like India. Some Asian analysts see the market continuing to offer broad sector diversification and attractively-valued quality-growth opportunities, albeit with a focus on careful stock selection given the backdrop of policy uncertainty.



Key Events and Data Releases

Last week

Date	Country	Indicator	Data as of	Actual	Prior
Tue. 22 April	US	IMF World Economic Outlook			
Wed. 23 April	US	Composite PMI, Flash	Apr	51.2	53.5
	EZ	Composite PMI, Flash	Apr	50.1	50.9
	ID	Bank Indonesia Rate	Apr	5.75%	5.75%
	UK	Composite PMI, Flash	Apr	48.2	51.5
	KO	GDP, Advance (qoq)	Q1	-0.2%	0.1%
	IN	Composite PMI, Flash	Apr	60.0	59.5
Thu. 24 April	US	Manufacturers New Orders (mom)	Mar	9.2%	1.0%
	GE	IFO Business Confidence Index	Apr	86.9	86.7
Fri. 25 April	UK	Retail Sales (mom)	Mar	-	1.0%

US - United States, EZ - Eurozone, ID - Indonesia, UK - United Kingdom, KO - South Korea, IN - India, GE - Germany

This week

Date	Country	Indicator	Data as of	Survey	Prior
Mon. 28 April	US	Earnings	Q1		
Tue. 29 April	US	JOLTS Job Openings	Mar	-	7.57mn
	US	Consumer Confidence Index, Conference Board	Apr	87.0	92.9
	CH	Banco Central de Chile Policy Rate	Apr	-	5.00%
Wed. 30 April	US	PCE Price Index (yoy)	Mar	2.2%	2.5%
	US	GDP, Flash (qoq)	Q1	0.4%	2.4%
	EZ	GDP, Prelim (qoq)	Q1	-	0.2%
	CN	NBS Composite PMI	Apr	-	51.4
Thu. 01 May	US	ISM Manufacturing Index	Apr	47.9	49.0
	JP	BoJ Policy Rate	May	0.50%	0.50%
Fri. 02 May	US	Change in Non-Farm Payrolls	Apr	123k	228k
	BR	Manufacturing PMI	Apr	-	51.8
	MX	Manufacturing PMI	Apr	-	46.5
	EZ	HICP, Flash (yoy)	Apr	-	2.2%

US - United States, CH - Chile, EZ - Eurozone, CN - China, JP - Japan, BR - Brazil, MX - Mexico

Source: HSBC Asset Management. Data as at 7.30am UK time 25 April 2025. For informational purposes only and should not be construed as a recommendation to invest in the specific country, product, strategy, sector or security. Any views expressed were held at the time of preparation and are subject to change without notice.

Market review

Risk market sentiment improved on signs of potential easing in global trade tensions, despite the IMF's downgrades to its GDP forecast due to a recent "surge in policy uncertainty". Investors continued to monitor corporate earnings releases and assess the Fed's policy outlook following remarks from officials. The US dollar paused for breath after recent weakness, while core government bond yields extended their modest declines. US and euro credit spreads further compressed, with HY outperforming IG. In the stock markets, the US experienced broad-based gains, led by the tech-dominant Nasdaq. European equities further rebounded, and Japan's Nikkei 225 advanced as exporters recovered ground, with trade negotiations and the upcoming BoJ policy meeting in focus. Other Asian markets also posted decent gains, led by Hong Kong's Hang Seng. Meanwhile, LatAm markets rallied, including stocks in Mexico and Brazil. In commodities, oil prices retreated. Gold consolidated after reaching a record high, while copper continued to rise.

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