HSBC

Press Release

6 January 2025

HSBC GLOBAL PRIVATE BANKING
Q1 2025 INVESTMENT OUTLOOK

NEW GROWTH ENGINES FOR A CHANGING WORLD

In the first half of 2025, HSBC Global Private Banking ("HSBC GPB") expects risk assets will remain well supported by a healthy global economic outlook, broadening earnings growth, and synchronised central bank rate cuts. The Bank believes equities will outperform bonds, and bonds will outperform cash. Multiple growth engines will support market momentum, and add to the opportunity set in 2025. HSBC GPB expects Asia ex-Japan GDP growth to stay resilient at 4.4% in 2025, well above the global average of 2.7% growth, thanks to robust domestic growth in India and ASEAN, coupled with China's broadening policy stimulus.

HSBC GPB holds an overweight position on global equities and a neutral position on global bonds. The Bank adopts an active and tactical approach in generating income through active credit selection. To mitigate geopolitical risks and trade uncertainty, it holds a tactical overweight on hedge funds and gold as tail-risk hedges and portfolio diversifiers. It stays bullish on the US dollar.

"Globally diversified multi-asset portfolios have outperformed cash substantially in 2024, we expect the outperformance of multi-asset portfolios will continue in 2025. Although the new US administration's policies bring uncertainty on the domestic policy, trade and fiscal front, we believe tax cuts and deregulation will be positive for US risk assets. This reinforces our biggest tactical overweight in US stocks, global equities, and bullish view on the US dollar. We overweight on equities in the UK, Japan, India and Singapore for their favourable growth appeal and risk-reward profile," says **Cheuk Wan Fan, Chief Investment Officer, Asia, Global Private Banking and Wealth, HSBC.**

"As the risk-on environment reduces the appeal of safe-haven bonds and credit spreads are relatively tight, we take a neutral stance on global bonds and focus on active fixed income strategies amid increased interest rate volatility. We expect geopolitical risks and trade uncertainty to drive strong demand for tail-risk hedges and portfolio diversifiers that should support our overweight position on gold and hedge funds and strategic allocation to private markets," adds Fan.

"With exception of the Bank of Japan, we expect major central banks will deliver more rate cuts this year. We expect the Federal Reserve will continue the rate-cutting cycle with three more 25 basis points of rate cuts in March, June and September 2025. This will bring the target range of the federal funds rate to 3.50%-3.75% by September 2025," highlights Fan.

HSBC GPB's four investment priorities for Q1 2025

(1) Capture earnings tailwinds from policy priorities and innovation

"Following the run-up in equity market valuations in 2024 and with moderate global growth in 2025, we look for companies with above-market average earnings growth potential. We capture earnings tailwinds from favourable industrial and fiscal policies, as well as AI innovation—two of our powerful engines of earnings growth for 2025," notes Fan.

"Industrial stocks in the US and Asia should benefit from strong industrial policies. AI-led innovation and corporate spending should boost the global technology sector and our High

This news release is issued by
The Hongkong and Shanghai Corporation Limited

Registered Office and Head Office:
1 Queen's Road Central, Hong Kong SAR
Web: www.hsbc.com.hk
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Conviction Themes, such as Intelligent Automation & AI, Digital Infrastructure, and NextGen Medicines. The resulting data-led economy requires much more electricity, supporting our Energy Transition theme. And all of this requires more infrastructure, such as rapid development of data centres, where we see strong opportunities for investors," says Fan.

(2) Fight falling cash rates with multi-asset and active fixed income strategies

"As most major central banks continue to cut interest rates, we think cash return will underperform bonds, equities, and alternative assets, while lower rates also help support valuations across risk assets. Multi-asset strategies benefit from a strong opportunity set, given the many growth engines for equities, low equity-bond correlations, and big dispersion between stocks. Interest rate volatility may remain elevated as markets reprice for less Fed rate cuts, and active fixed income strategies can generate diverse alpha sources across markets and sectors by tactically adapting to changing market conditions," notes Fan.

(3) Build out core allocation to private markets and hedge funds

"More than 85% of US companies with revenues above USD100m are private companies that are not listed on the stock exchanges. As more companies stay private for longer, investors need to have private market exposure to capture this attractive growth spurt. We build our allocation to private equity and private credit to add to opportunities that are not available in public markets, generating additional alpha and diversify. Hedge funds have an attractive opportunity set, while elevated market volatility and return dispersion creates a favourable investment environment," highlights Fan.

(4) Discover domestic resilience in an evolving Asia

"To navigate increased trade uncertainty after the US elections, we focus on discovering domestic resilience and diversification opportunities in Asian equity and credit markets. We expect Asia ex-Japan GDP growth to stay resilient at 4.4% GDP growth in 2025. The tariff overhang also adds momentum to Asia's intra-regional trade and investments, offering growth opportunities to high-end manufacturing leaders with global competitiveness," says Fan.

"Against a stronger US dollar, we maintain a bullish view on Philippines Peso, Indian Rupee, and Indonesian Rupiah with support of high yields, lower trade dependency and strong domestic resilience.," notes Fan.

James Cheo, Chief Investment Officer, Southeast Asia and India, Global Private Banking and Wealth, HSBC, expects the ASEAN-6 economies will deliver robust GDP growth of 4.8% in 2025, above the 4.4% regional average growth, thanks to robust domestic consumption and investment. Around 60% of ASEAN GDP is powered by private consumption, which should mitigate the risk of weaker exporter growth amid trade uncertainty in 2025.

"In ASEAN, countries with strong linkages to AI-related technology exports should enjoy the ongoing global tech upcycle. ASEAN economies remain the beneficiaries of shifting trade flows and supply chain reorientation driven by US trade restrictions and tariffs on China," says Cheo.

The Indonesia Economic and Investment Outlook 2025

Cheo highlights that in 2025, we expect the Indonesia's economy in 2025 is set to benefit from a combination of infrastructure development, export diversification, and robust domestic consumption. Policy continuity is the base case. Indonesia's economy will likely experience significant investments in infrastructure and healthy domestic demand. Indonesia's manufacturing activity as proxy by purchasing manager index (PMI) is showing nascent signs of a turnaround. Encouragingly, inflation is expected to remain below Bank Indonesia's 2.5% target, and prudent fiscal policy will provide a stable foundation for growth. The fiscal deficit is projected to stay under 3% of GDP, allowing the government to sustain infrastructure and social welfare spending.

“While the USD-IDR will face pressures from a stronger dollar, we like the IDR for it’s carry. We forecast USD-IDR to end the year at 16,300. We expect Bank Indonesia (BI) to embark on three rate cuts in 2025 – a 25bp in Q1 and 50 bps in 2Q, taking the policy rate to 5.25% by June from 6% currently, the frontloading of BI’s rate cut reinforces our overweight call on Indonesia local currency bonds and high quality quasi-sovereign IG bonds” says Cheo.

Top Trend of Asia in the New World Order – Q1 2025 High Conviction Themes

HSBC GPB recommends four top investment themes to capture the most attractive growth and income opportunities in Asia.

Asia’s Domestic Leaders

“We favour Asia’s quality companies which rely on domestic demand and have limited exposure to the US market. In mainland China, Hong Kong, and Japan, we find attractive alpha generation opportunities from the domestic leaders with strong competitive position and earnings growth above their sector average,” highlights Cheo.

“In Japan, the sustained reflation trend and bumper wage hike bode well for domestic consumption companies. These resilient Asian domestic leaders should act as relative safe havens to withstand tariff risks, and they are expected to outperform exporters that focus on the US market,” explains Cheo.

Power Up Asian Shareholder Returns

“We look for resilient and defensive equity returns by positioning in quality companies that enhance return on equity by paying high dividends or increasing share buybacks. Consensus estimates forecast Asia ex-Japan’s return on equity will rise to 12% in 2025. Share buybacks in Asia are growing at a record pace, particularly in Japan, mainland China and Hong Kong markets,” notes Cheo.

“Solid earnings growth is forecast to drive over 7% growth in dividends in Asia ex-Japan and 9% in Japan in 2025, thanks to positive progress of corporate governance reforms in Japan, China and South Korea. Dividend yields in Singapore and Indonesia at 4.2%; Hong Kong and Malaysia at 3.9% look compelling versus 1.8% globally.,” highlights Cheo.

Rise of India and ASEAN

“We find promising domestic-driven opportunities in India and ASEAN, riding on the secular tailwinds from young demographics, rising middle-class consumers, and technology boom. We attach a stronger focus on domestic consumption winners to mitigate tariff risks. The recent pullback in Indian equities presents an attractive opportunity to add exposure as the market remains well supported by 16% 2025e earnings growth, high ROE, and strong inflows from domestic investors. India’s domestically driven earnings profile makes it defensive to US tariff risks. Within ASEAN, we are overweight Singapore equities as the country has a modest trade deficit against the US, making it a defensive play under tariff risks as compared to other regional peers, especially with support of its compelling dividend yield,” Cheo points out.

High Quality Asian Credit

“More Fed rate cuts in 2025 will create more room for Asian central banks to lower rates, which should bode well for quality bonds in the region. We stay focused on Asian USD investment grade corporate bonds, Asian financials, Indian and Indonesian local currency bonds, Indonesian high-quality USD quasi-sovereign investment grade bonds, and select Macau gaming bonds and Chinese TMT issuers," adds Cheo.

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Disclosure
The value of investments and income from them can fall and you might get back less than you invest. Investments in emerging markets may be extremely volatile and subject to sudden fluctuations of varying magnitude due to a wide range of influences.

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Notes to editors:
1. Download our Q1 2025 Investment Outlook report " New Growth Engines for a Changing World " at PDF format: link

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