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Video Transcript

HSBC Investment Outlook – February 2025 Monthly View
Willem Sels

During our client discussions around the 2025 Investment Outlook, it has become clear that most investors perceive the new US administration as being pro-growth and pro-innovation, but presenting some reflationary risks and the likelihood of headline-related volatility. We agree with this, and we think our strategy is in fact well adapted to this.

For example, the early announcement by the new US administration of big investments in AI and datacentres and its focus on energy security support our number one priority for 2025 namely 'Capture earnings tailwinds from policy priorities and innovation'.

We believe that the industrial policies and AI-led innovation reinforce each other to create an entire eco-system with opportunities in Chips, in Automation, digital infrastructure, energy security and data security.

And of course, It also supports our continued overweight on US equities, given that broad range of opportunities. While we encountered some concern about high US valuations, we think this innovation will create attractive earnings growth, supporting stocks. In fact, we think the consensus earnings expectations for this quarter are very conservative, and most companies should exceed them.

Now for the rest of the world, the outlook is of course more mixed. The suggestion of a 10% tariff on imports from China would not be a surprise, but underscores the importance of focusing on domestic resilience and income when investing in Asia.

As for Europe, the lack of a clear industrial strategy, political uncertainty and the risk of tariffs all weigh on sentiment. So we already underweight Eurozone stocks, but we now also move French stocks to an underweight.

The bond market has been pricing in a substantial compensation for risks of higher US deficits, and that's in the form of elevated real yields, which are close to multi-year highs. We think that creates a tactical opportunity for investors to extend the duration on US Treasuries and also on the USD investment grade bonds.

Now in the UK, the moves in the gilt market have been even more pronounced, but we think that the Chancellor will be forced to reduce spending and that could help cap UK yields but also lower growth. So we extend UK gilt duration but cut UK stocks from an overweight back to neutral.

We think that the US policy announcements will continue to lead to tactical opportunities like these, which active managers and of course hedge funds can also exploit.

A well-diversified portfolio with a multi-asset approach taps into the wide opportunity set and, where appropriate, this may include alternatives such as infrastructure and private equity, which we think will fare well under the new US administration.