

Q3 / 2025

HSBC Perspectives

Shaping your investment portfolio



HSBC

| Opening up a world of opportunity

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Building a resilient portfolio for an uncertain era

The past few months have given investors plenty to ponder, with US trade tariffs causing elevated volatility in multiple asset classes around the world. Traditional safe-haven assets, such as Treasuries and the US dollar, were no exception. What's more, we expect tariffs to remain with us for some time, as they're a negotiating tool to obtain concessions from other countries and provide the US administration with a way to finance planned tax cuts.

So, economists and businesses have been trying to assess what the impact will be on growth, earnings and inflation. That's not an easy task, as the tariff levels have been changing and could still change further. That said, the 90-day tariff reprieve (now also including China) offers temporary relief, and there's hope with the recent US-UK trade deal that other countries will follow.

What does this mean for investors?

The recent US-China negotiations, albeit a temporary reprieve, have rekindled market optimism. US equities have regained the lost ground since the 2 April Liberation Day announcements, supported by stronger-than-expected Q1 corporate earnings and benign April inflation data. This all seems to point to a better outlook. As a result, we've moved global and US equities back to an overweight position. This swift change in view is driven mainly by a U-turn in trade policy, which has reduced recession risks. However, the dust has yet to settle on this period of geopolitical uncertainty. So, we stick to our basic, yet important, rule of diversification and look to deepen it further.

We expect other nations to continue or even intensify their trade with non-US trading partners. This means that investors will also want to diversify and capture opportunities beyond the US. Asia is in better shape for various reasons. Notably, its domestic resilience and structural growth opportunities are evident, and clusters of manufacturing expertise in China and Asia can't easily be broken up. High US tariffs on some Southeast Asian markets will also benefit India's manufacturing sector, while Singapore stands out as an outlier in the current trade tensions among other Asian markets.

Structural trends remain intact

From a fundamental perspective, we still have faith in the US's long-term strengths, particularly in areas like AI adoption and innovation, even though they've been overshadowed by tariff-related concerns. In fact, we continue to see examples of AI revolutionising business models or boosting efficiency around the world. If Technology and Communications are beneficiaries of the AI momentum, then the industrials sector is also a winner across all regions, driven by high demand for digital infrastructure and the US administration's focus on re-industrialisation and the onshoring of jobs. Renewable energy can also benefit as AI adoption has a high reliance on electricity.

Diversification in focus amid slow but positive growth and gradual easing

At this juncture, when tariff negotiations are still up in the air, we continue to use quality bonds with a medium-to-long duration, gold and less-correlated assets to solidify diversification. We also leverage active management to adjust portfolio allocations as and when needed. For individual investors, these objectives can be achieved through multi-asset strategies with exposure to various asset classes, markets and currencies.

As always, this report presents our four investment themes and brings more value to our readers by delving into specific topics. This quarter, to help you position your portfolios, we look at the potential scenarios for US tariffs and their investment implications, as well as how Asia can ride on AI-driven opportunities.

We hope these insights will help you navigate this period of uncertainty and offer a clearer picture for the months ahead.

Best wishes for a smooth investment journey.



Willem Sels

Global Chief Investment Officer,
HSBC Global Private Banking and Wealth

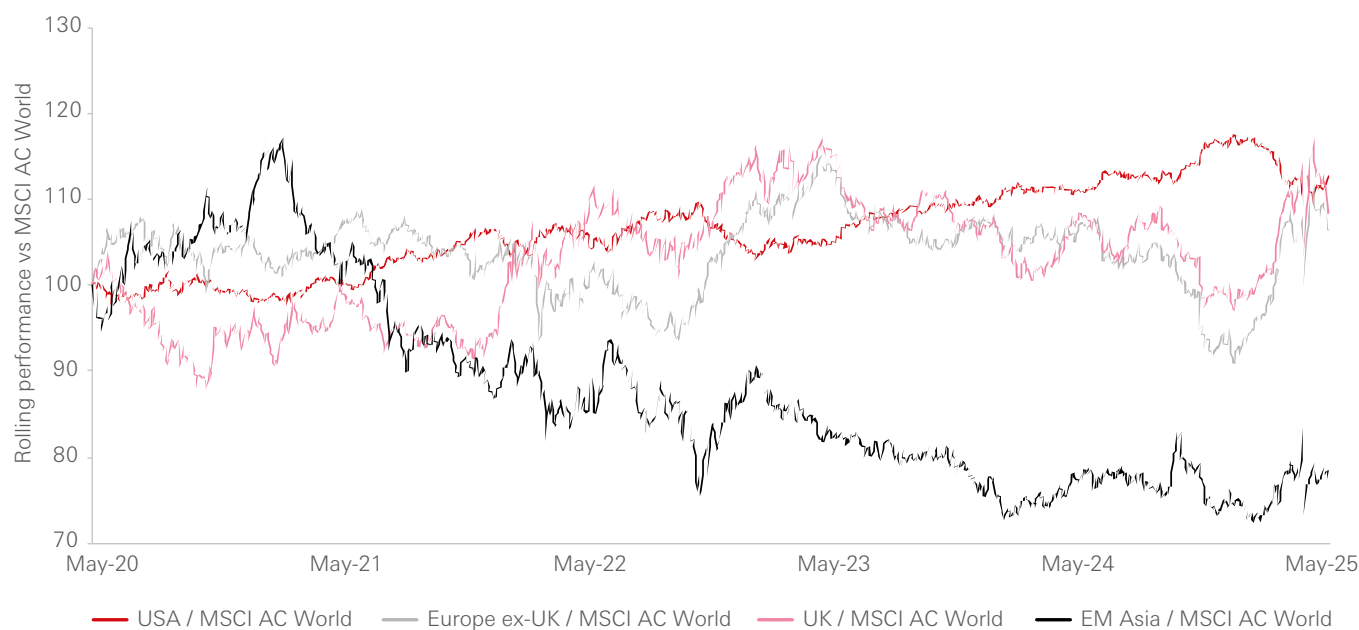
Key data to watch

Global growth is expected to moderate but stay positive, while strong innovation and policy support remain growth drivers for Asia. The inflation outlook is somewhat mixed

	GDP		Inflation	
	2025f	2026f	2025f	2026f
World	2.3	2.3	3.3	2.9
US	1.6	1.3	2.9	3.1
Eurozone	0.6	1.4	1.9	1.8
UK	0.9	1.0	2.9	2.2
Japan	0.7	0.4	3.0	1.5
Mainland China	4.3	4.0	0.2	0.8
India	6.2	6.0	3.7	4.5

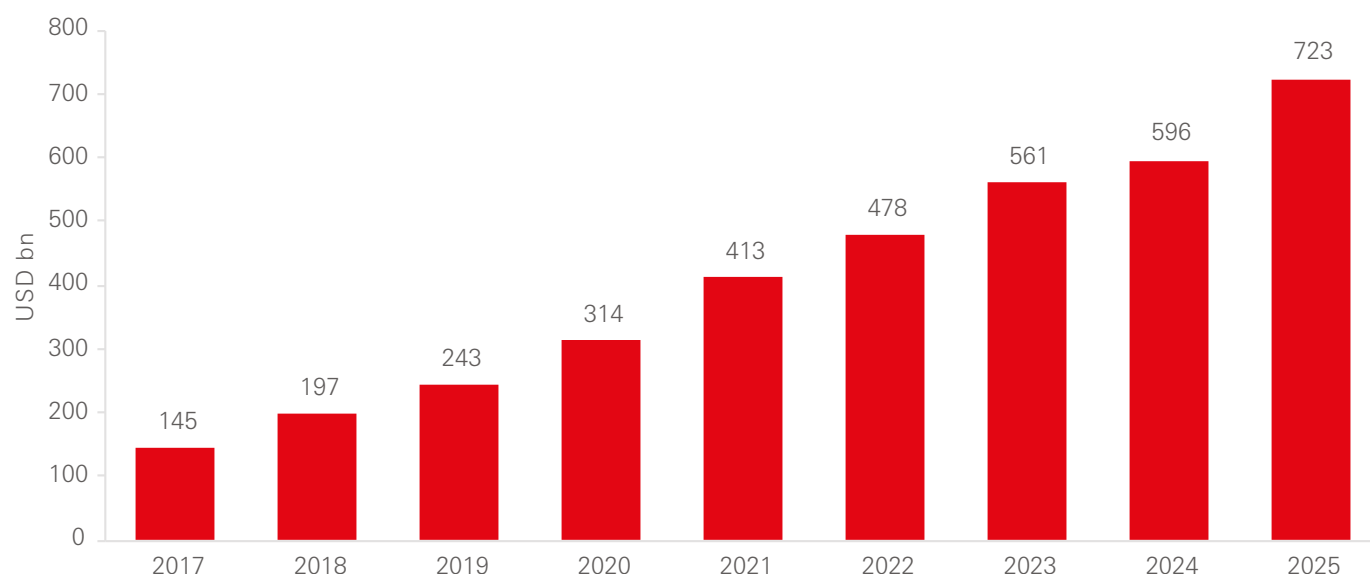
Source: HSBC Global Research as at 16 May 2025. Estimates and forecasts are subject to change. India inflation forecasts are fiscal year.

US equity underperformance should be behind us as confidence returns



Source: Bloomberg, HSBC Global Private Banking and Wealth as at 16 May 2025. Past performance is not a reliable indicator of future performance.

Public cloud services end-user spending worldwide (USD billions)



Source: Statista, HSBC Global Private Banking and Wealth as at 16 May 2025.

Global calendar

Key events – second half of 2025

24 Jul	European Central Bank (ECB) policy decision	30 Oct	ECB policy decision
30 Jul	Federal Open Market Committee (FOMC) policy decision	6 Nov	BoE policy decision
7 Aug	Bank of England (BoE) policy decision	10-21 Nov	UN Climate Change Conference (COP30)
11 Sep	ECB policy decision	22-23 Nov	G20 Summit
17 Sep	FOMC policy decision	10 Dec	FOMC policy decision
18 Sep	BoE policy decision	18 Dec	ECB and BoE policy decisions
29 Oct	FOMC policy decision		

Four investment themes to help shape your portfolio

1 Stay diversified geographically to build resilience

US economic growth should remain positive yet moderate at around 1.6% in 2025. With a reduction in tariff-related headline risks, we expect the rotation away from US assets to slow. Earnings growth provides an upside risk on already reduced expectations, while potential tax cuts could be another driver of market optimism. Despite a more positive outlook for the US, uncertainty isn't going away, which reinforces the importance of diversification.

Asia is well-poised to receive capital inflows due to solid structural growth and diverse domestic opportunities, which should be able to partly offset the impact of tariffs. We expect additional targeted stimulus in China to boost domestic demand and, although we see India as a winner from the supply chain realignment, Indian stocks could be volatile in the short term due to the geopolitical conflict. Nevertheless, the long-term structural growth engines remain in place.

The more positive outlook for the US will temper the equity flows towards Europe, leading us to move it to a neutral position there. Elsewhere, the UAE also presents structural opportunities and is less challenged by tariff stresses.

- ◆ **We've moved global and US equities back to an overweight position and continue to diversify into Asia and the UAE.**
- ◆ **In Asia, we favour China, India and Singapore, with a focus on domestic resilience.**





2 Prioritise AI adoption and long-term structural trends

While it will take time to assess the full impact of tariffs on the economy, we shouldn't let tariffs overshadow the power of innovation and structural trends, both of which should benefit further from lower rates and tax cuts.

In the US, the unabated enthusiasm around AI-led innovation continues, supported by solid cloud revenues and major 2025 capex plans announced in the Q1 earnings season. Overall earnings growth expectations have already been cut, providing room for upside surprises. Our sector strategy is tilted towards large-cap, quality stocks with a preference for services over goods. The tech revolution, onshoring of jobs and US re-industrialisation continue to offer structural opportunities across sectors.

After decades of underinvestment, Europe's strategic focus on defence and automation will trigger more industrial activity and R&D. In Asia, the AI theme is more favourable to the communications sector than to technology, due to the former's higher exposure to AI adopters. The prospects for Consumer Discretionary are stronger than in other regions thanks to policy support. We tap into tactical opportunities caused by the tariffs to capture structural growth.

- ◆ **In the US, we continue to diversify beyond the Magnificent 7 stocks and into Technology, Communications, Financials and Industrials, while remaining overweight on Industrials, Financials and Healthcare in Europe.**
- ◆ **In Asia, we favour domestically oriented companies in Communications, Industrials, Consumer Discretionary and Financials.**

3 Mitigate risks through multi-asset and active strategies

While a growth slowdown is perceived as the top concern, policy and geopolitical risks remain elevated and any further shocks could leave investors with little time to respond. Although we expect USD weakness to stall, its temporary loss of appeal as a safe-haven currency at the beginning of the trade turmoil shows that currency risk shouldn't be overlooked when it comes to managing portfolio volatility.

Multi-asset strategies can play a pivotal role in portfolio resilience due to their exposure to various asset classes, markets and currencies. Aided by active and selective management, multi-asset strategies can react swiftly in an evolving political and financial landscape. Some strategies could even tap into the private markets to capture new opportunities.

A focus on quality, diversification and active management also applies to our bond strategy. As many developed market central banks prioritise growth over inflation concerns, we remain on track for more interest rate cuts, which should boost bond performance. Lower commodity prices also provide room for rate cuts to continue in emerging markets.

- ◆ **Multi-asset strategies offer diversification benefits and professional management to mitigate growth, currency and duration risks.**
- ◆ **We prefer long-dated (7-10 years) UK gilts, as well as EUR and GBP investment grade credit in our search for attractive yields and diversification beyond the US.**

4 Seek out less-correlated assets to enhance diversification

In a period of heightened market uncertainty, it's imperative to seek further diversification from less-correlated assets. A flight to safe-haven assets, the fall of the USD so far this year and central bank buying should all help the gold price stay high. Nowadays, there are different channels for investors to gain exposure to gold, including commodity-focused ETFs and as part of multi-asset portfolios.

Infrastructure continues to attract strong investment flows, as governments push for urbanisation and national security. The growth of the digital economy is also driving huge demand for digital infrastructure, specifically cloud computing, data centres and networking equipment to support increased use of AI.

AI adoption is highly energy intensive. The reliance on stable electricity supplies requires additional electricity installations and pushes data centre owners to seek alternative solutions to mitigate their environmental impact. This, together with a policy push for energy security, will strengthen investments in the energy transition. Germany, for example, has proposed a new EUR500bn special fund for infrastructure and climate investments. The Next Generation EU facility is also set to invest in digitalisation and energy security.

- ◆ **As gold has historically proven capable of withstanding market volatility, we remain bullish on gold as a hedge against the unexpected.**
- ◆ **We look to infrastructure to generate relatively stable cash flows while focusing on renewable energy to capture broadening opportunities.**



Regional market outlook

Where should you invest your money?

United States



The outlook for trade tariffs is particularly important for the US, as they can raise inflation and reduce the room for interest rate cuts, thereby hurting growth. Therefore, the U-turns, tariff reprieves and trade deals are all positives that have reduced the recession risks. Markets will eagerly watch for company announcements of big investments into the US to assess how quickly manufacturing activity will pick up. AI-led innovation, meanwhile, can benefit the US technology sector and the many users of AI. As a result of the renewed optimism and reduced tail risks, we've moved to an overweight on US stocks.

The Eurozone and UK



Europe has been shocked into action by the global tariffs and the need to build out its own defence capabilities. However, while markets were very hopeful when Germany changed its constitution to increase fiscal spending, the latest coalition agreement lacks ambition. It remains to be seen whether the EU manages to reform and deregulate its markets and make real change to its competitiveness. The UK's trade deals with the US and India are positive, but a deal with the EU would be a real game changer. For now, we're neutral on Eurozone and UK stocks.

EM EMEA and EM Latin America



Any resolution to the long-running military conflicts on Europe's borders could be positive for the region. But this is offset by the increased challenges for the EU and the very difficult relationship between the EU and Russia.

In Latin America, Brazil's resurgent inflation is forcing the central bank to hike interest rates, resulting in lower consumer confidence and downside pressure on growth. While Mexico is very exposed to trade with the US, both nations recognise the need to find a solution. Investment is understandably low, but services are resilient and rate cuts are still likely. As a result, we prefer Mexican stocks over Brazilian stocks.



Asia (ex-Japan)

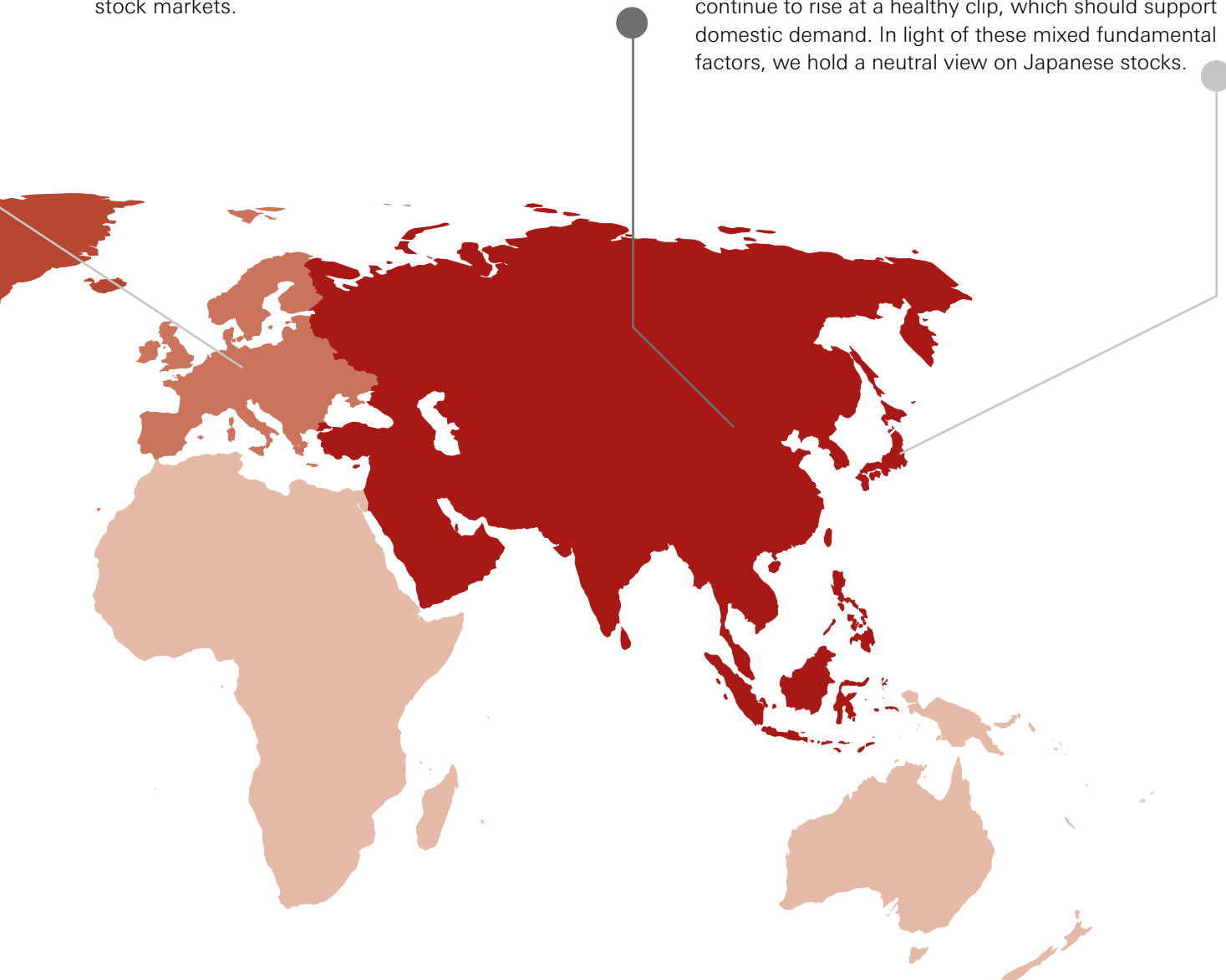


Asia is proving to be relatively resilient in spite of the tariff headwinds, thanks to the region's various growth engines. Domestic demand is strong in many Asian markets, while China is ready to add further stimulus if internal demand weakens. Technological innovation and leadership in manufacturing reinforce each other to create another growth engine. As companies adjust and diversify their supply chains, we think India's manufacturing sector will benefit. Finally, Asia's inflation outlook is healthy, allowing for more interest rate cuts. As a result, we overweight China, India and Singapore's stock markets.

Japan



While Japan's economy and stock market benefitted from the weak JPY last year, this effect has been partially reversed this year due to the fall of the USD so far, creating a headwind for Japan. Some of the country's big exporters, including car makers, are vulnerable to the US tariffs, though many investors believe Japan is well placed to sign a trade deal soon. In the meantime, wages continue to rise at a healthy clip, which should support domestic demand. In light of these mixed fundamental factors, we hold a neutral view on Japanese stocks.



Note:

The above comments reflect a 6-month view (relatively short-term) on asset classes for a tactical asset allocation. For a full listing of HSBC's house view on asset classes and sectors, please refer to our Investment Monthly issued at the beginning of each month.

What the US trade tariffs mean for your portfolio

As investors look for clarity on global trade policies, the announcement of US trade deals with the UK and the 90-day reprieve on tariffs for China and other countries provide some helpful clues as to what is likely to happen over the coming months.

While markets have mostly recovered from the shock of 'reciprocal' tariffs that the US announced – and then postponed – in early April, the flurry of policy announcements has made it difficult for investors to know what to expect. Moreover, the impact on growth and inflation may not yet be visible in the economic data.

We aim to address the complexities in the market by exploring three potential scenarios for US trade policy and their implications for investors.

The most bullish scenario for markets, where all additional tariffs announced on 2 April are fully removed, appears unlikely. First of all, the US administration wants to use tariff income to fund tax cuts, and second, it believes that tariffs make US companies more competitive.



We note that the UK (and other countries) retain the 10% base tariff, despite the US running an overall trade surplus with the UK.

The bearish scenario for markets would see little progress made in negotiations with other nations, with the full force of the tariffs taking effect on 9 July. This remains possible, and we're watching closely for progress in talks between the US and Europe, given the importance of that trade relationship.

Our core scenario assumes that the UK deal, now sealed, would be the first in a series of agreements that are likely to bring the reciprocal tariffs down to around 10% for Europe, near 20% for Asia ex-China, and perhaps 30-50% for China. Globally, that would mean an average tariff rate on US imports of around 13%, well below the rate announced on 2 April, but still the highest effective rate since the early 1900s.

We also expect more exemptions for products that the US needs but can't produce locally. We've seen this for smartphones, electronics and computers imported from China. Conversely, China has exempted some US-made semiconductors from its tariffs on US goods.

While we expect tariffs to remain with us for some time, a US trade deal with the EU before the 9 July deadline would likely lift market sentiment further. The EU can use its commitments to higher defence spending to build goodwill, but a deal will depend on whether the US technology sector can be accommodated.

Implications of our three tariff scenarios

Scenario	Tariff outcome and economic implications	Investment strategy
Bullish	Tariffs are cut back to pre-Liberation Day levels.	Trend-like US growth and stable inflation support a rebound in US and global equity markets. <ul style="list-style-type: none"> • Increase cyclical exposure and shorten bond duration
Core	Tariffs are negotiated down but remain at 10% minimum, with China around 30-50%, with some exemptions for specific sectors.	Growth slowdown with volatile economic and earnings data. <ul style="list-style-type: none"> • Take global equity exposure but with a preference for the US and Asia • Favour large caps and domestic leaders over exporters and services over goods • In Asia, position in domestically oriented markets and sectors, including China's innovation champions, high dividend SOEs, India's domestic leaders and Singapore REITs • Use diversification and tail risk hedges including gold, long-dated quality bonds and multi-asset strategies
Bearish	Negotiations are difficult and yield little progress during 90-day period.	High-for-longer inflation pressures impact demand and raise the risk of stagflation. <ul style="list-style-type: none"> • Rotation into non-US assets and safe-haven assets (gold, JPY, CHF) and rising volatility • Overweight cash and short-dated quality bonds and underweight stocks

Driving AI forward: How Asia is navigating the boom

By HSBC Global Research

Key takeaways

- ◆ Major tech investments have made Asia a key player in AI hardware. Taiwan leads in AI processors, South Korea in high-bandwidth memory, and mainland China, Japan and Australia have top data centres.
- ◆ South Korean chip equipment makers are vital for advanced AI chips, excelling in specialised processes. The shift to extreme ultraviolet lithography (EUV) will boost their role further.
- ◆ ASEAN aims to expand data centre capacity significantly by 2030, with growth in Singapore, Malaysia and Indonesia relying heavily on renewable energy to meet demand.



The rise of AI over the past two years has fuelled substantial investment, particularly in Asia's technology sector. Economies like Taiwan, South Korea and mainland China are at the forefront of developing advanced hardware essential for AI, including high-end processors and data centres. As demand for AI hardware continues to grow, Asia's tech landscape is evolving rapidly, presenting both opportunities and challenges. We look at the economies, sectors and technologies affected by the rise of AI.

Asia's AI hardware – wired for success

AI's surge in popularity over the past two years has driven massive investment by large technology firms, and Asia is no exception. Many chipmakers, data centre operators, and advanced electronics producers are riding the AI boom. Taiwan, for example, is the global leader in manufacturing high-end processors, while the production of high-bandwidth memory – advanced memory products made up of several chips stacked together – is led by South Korea. Mainland China, Japan and Australia are the three largest data centre markets in Asia. Despite being less directly exposed to the AI theme, India and ASEAN will likely build out data centre capacity rapidly as well. When it comes to advanced electronics, Asia produces a wide range of goods with high AI exposure, such as computers, smartphones and flat-panel displays. In many of these industries, mainland Chinese firms are expanding at the expense of incumbent leaders Taiwan and South Korea. Will Asia's AI hardware boom continue? Land, energy and water scarcity present challenges. There's scope for policy to mitigate these constraints, however, and they could even open new opportunities for certain upstream sectors, such as cooling equipment. We think big tech's AI investment is set to continue in Asia.

South Korea chips away at the semiconductor supply chain

South Korea's chip equipment makers play a vital role in the production of today's most advanced chips that live in the latest smartphones and are used to power AI. This isn't just a local story. While they sell equipment to nearby chip-making giants, they also supply global leaders. In some instances, South Korean chip equipment makers dominate niche but critical steps in the manufacturing process. Their areas of strength include hydrogen annealing – a process which significantly improves production yields – as well as atomic-level inspections and laser-based dicing.

A technological shift is underway that could play to these strengths. The world's major chip makers are increasingly using EUV, which leads to more layers on a chip, smaller nodes and, inevitably, more demand for highly specialised equipment. With surging demand providing further support, we anticipate ongoing strong investment by memory chip and logic chip makers in the coming years.

ASEAN's data centre ambitions

ASEAN is hardly a regional leader when it comes to data centres – yet. ASEAN currently has 1.8GW of installed data centre capacity, representing around 16% of the Asia-Pacific total. But that proportion is set to rise sharply to 25% by 2030. Singapore, Malaysia and Indonesia are key locations where capacity is likely to be added. As in other regions, data centre capacity generates big energy demands. Unlike in other places where nuclear is seen as a potential solution, ASEAN's focus is firmly on renewables. Our estimates suggest 77GW of renewable capacity could be added in ASEAN by 2030, mostly solar and wind, boosting the renewable energy mix to 28% of overall ASEAN power capacity. This extra green-power capacity will be vital for ASEAN to meet its data centre ambitions. So, too, will further investment in local and regional power grids.

While AI's hardware boom in Asia shows no signs of slowing down, the region must navigate resource constraints and the push for sustainable energy solutions. With markets like ASEAN ramping up data centre capacity and investments in renewable energy, Asia is well-positioned to sustain its leadership in this transformative tech era. The ongoing technological advancements and strategic investments by big tech firms suggest that Asia's AI hardware industry is set for a prosperous future.

Glossary

Alternative investments: a broad term referring to investments other than traditional cash and bonds. They may include real estate, hedge funds, private equities and commodities investments, among other things. Some of these investments may offer diversification benefits within a portfolio.

Asset class: a group of securities that show similar characteristics, behave similarly in the marketplace and are subject to the same laws and regulations. The main asset classes are equities, fixed income and commodities.

Asset allocation: the allocation of funds held on behalf of an investor to various categories of assets, such as equities, bonds and others, based on their investment objectives.

Company fundamentals: the intrinsic value of a company as analysed by looking at its revenue, expenses, assets, liabilities and other financial aspects.

Diversification: often referred to as “not putting all your eggs in one basket”, diversification means to invest in a variety of different markets, products and securities to spread the risk of loss.

Fiscal policy: the use of government spending and tax policies to influence macroeconomic conditions, such as aggregate demand, employment, inflation and economic growth.

Investment strategy: the internal guidelines that a fund follows in investing the money received from its investors.

Inflation: the rise in the general price levels of goods and services in an economy over a period of time.

Monetary policy: the process by which the authorities of a country control the supply of money. This often involves targeting a rate of interest for the purpose of promoting economic growth and stability.

Quantitative easing (QE): also known as large-scale asset purchases, a monetary policy whereby a central bank buys government securities or other financial assets from the market in order to increase the money supply and encourage lending and investment.

Strategic asset allocation: a practice of maintaining a mix of asset classes which aims to meet an investor’s risk and return objectives over a long-term horizon rather than to take advantage of short-term market opportunities.

Tactical asset allocation: an active management strategy that deviates from the long-term strategic asset allocation in order to capitalise on economic or market conditions that may offer near-term opportunities.

Tapering: the reduction of the interest rate at which a central bank accumulates new assets on its balance sheet under a policy of QE.

Volatility: a term for the fluctuation in the price of financial instruments over time.

Contributors

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Willem joined HSBC Global Private Banking and Wealth in 2009, where his career has spanned Fixed Income, Investment Research, leading the UK Investment Group and, most recently, the role of Global Chief Investment Officer. He chairs the Global Investment Committee and the CIO Office for Private Banking and Wealth. Willem holds an MBA from the University of Chicago and an MSc from the University of Louvain (Belgium).

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Disclosure appendix:

1. The article “Driving AI forward: How Asia is navigating the boom” is dated as at 19 May 2025.
2. All market data included in this report are dated as at close 18 May 2025, unless a different date and/or a specific time of day is indicated in the report.
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