

Investment Monthly

Pricing a perfect picture?

September 2025

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HSBC Asset Management | Opening up a world of opportunity

Macro Outlook

- ◆ **Policy uncertainty remains high**, with tensions between the US administration and the Federal Reserve the latest example
- ◆ The economic outlook is clouded by **uncertainty about the impact of tariffs amid signs of cooling growth** – yet market volatility has fallen sharply over the summer, with many markets pricing stronger growth
- ◆ **We think premium growth opportunities** lie in emerging markets, with economic power shifting to Asia and the Global South
- ◆ **In Asia, trade reforms**, stronger regional co-operation, and export diversification, should boost resilience amid tariffs and external headwinds

House View

- ◆ A regime of **G-zero economics** is emerging, where no one economic power is leading the global order and is characterised by supply shocks, constrained growth, and high and volatile inflation
- ◆ As **US exceptionalism fades**, and with global **profits growth broadening out**, we maintain a relative preference for markets outside the US
- ◆ The **US dollar** remains over-valued and is expected to face continuing weakness, which should be **a catalyst for emerging market assets**
- ◆ Portfolio resilience can be built with **“safety substitutes”** including selective high-quality fixed income, multi-factor strategies, and real assets like gold

Policy Outlook

- ◆ **US Federal Reserve Chair Powell** raised the prospect of a September rate cut amid a “shifting balance of risks”, with near-term inflation risks tilted to the upside and employment risks tilted to the downside
- ◆ **Eurozone inflation** is at target but could ease on slower wage growth, tariff shocks, and euro strength – potentially allowing further ECB easing
- ◆ Growth concerns, benign inflation, and USD softness in 2025 aid the case for more monetary easing and **fiscal support in EM Asia**
- ◆ **Supportive macro policy in China** is focused on structural rebalancing – mainly via supply-side reforms to restore corporate profits and boosting consumption on the demand side – as well as longer-term strategies

Scenarios

SPINNING AROUND	Our central scenario. Tariffs remain close to current levels, moderate US spending cuts. High uncertainty. Stock market leadership broadens out. EMs are resilient
TOPPLING OVER	Tariff re-escalation and major US spending cuts. Sharp slowdown in growth, hitting EMs. US stocks enter a bear market. Rates rally across the curve
TAKING OFF	Tariffs abandoned. Animal spirits boost global growth. Europe catches up with resilient US. Stocks perform well. EMs rally as global growth projections upgraded

Source: HSBC Asset Management as at September 2025. The value of investments and any income from them can go down as well as up and investors may not get back the amount originally invested. The views expressed above were held at the time of preparation and are subject to change without notice. Diversification does not ensure a profit or protect against loss. This information shouldn't be considered as a recommendation to invest in the country or sector shown.

Cooling growth and steep valuations are potential risks to US stock returns, reinforcing our preference for ex-US markets. Continued **US dollar weakness is positive for global investors, particularly in emerging market assets**. Diversifiers such as high-quality public and private credits, and real assets like gold, can offer portfolio resilience

- ◆ **Equities** – Resilient profits and AI enthusiasm could continue to support US market momentum, but high concentration and lofty valuations are potential risks. Global profits growth is expected to broaden out, supporting our preference for EMs and Frontier regions, where valuations are also lower
- ◆ **Government bonds** – As fiscal and inflation risks rise, investors will demand more risk premium to own long bonds. This is showing up in rising long-term bond yields, with yield curves bear steepening in the UK, Europe, and Japan
- ◆ **Corporate bonds** – Investment grade corporate credit spreads remain tight, but strong technicals and robust balance sheets are supportive. Relatively high ‘all in’ yields are compelling for investors seeking steady income flows

Equities		Government bonds		Corporate bonds		FX & Alternatives		Asian assets	
Asset Class	House view	Asset Class	House view	Asset Class	House view	Asset Class	House view	Asset Class	House view
Global	↗▲	Developed Market (DM)	↗▲	Global investment grade (IG)	↗▲	Gold	▲	Asia local bonds	▲
US	↔	US 10-year	↔	USD IG	↗▲	Other commodities	↔	RMB bonds	↗▲
UK	↔	UK 10-year	▲	EUR & GBP IG	↗▲	Real assets	▲▲	Asia ex-Japan equities	▲
Eurozone	↗▲	German 10-year	▲	Asia IG	↗▲	Hedge funds	▲▲	China	▲
Japan	↔	Japan	▼	Global high-yield	↗▼	Private credit	▲▲	India	▲
Emerging Markets (EM)	▲	Inflation-linked bonds	↗▲	US high-yield	▼	Private equity	↔	ASEAN	↗▲
CEE & Latam	▼	EM (local currency)	▲	Europe high-yield	▼	US dollar (DXY)	▼	Hong Kong	▲
Frontier	▲			Asia high-yield	↗▲	Crypto assets	▼▼	Asia FX (ADXY)	↗▲
				Securitised credit	▲				
				EM hard currency (USD)	▲				

Key to views

▲▲ Positive

▲ Positive Bias

↗▲ Neutral/Positive bias

↔ Neutral

↗▼ Neutral/Negative bias

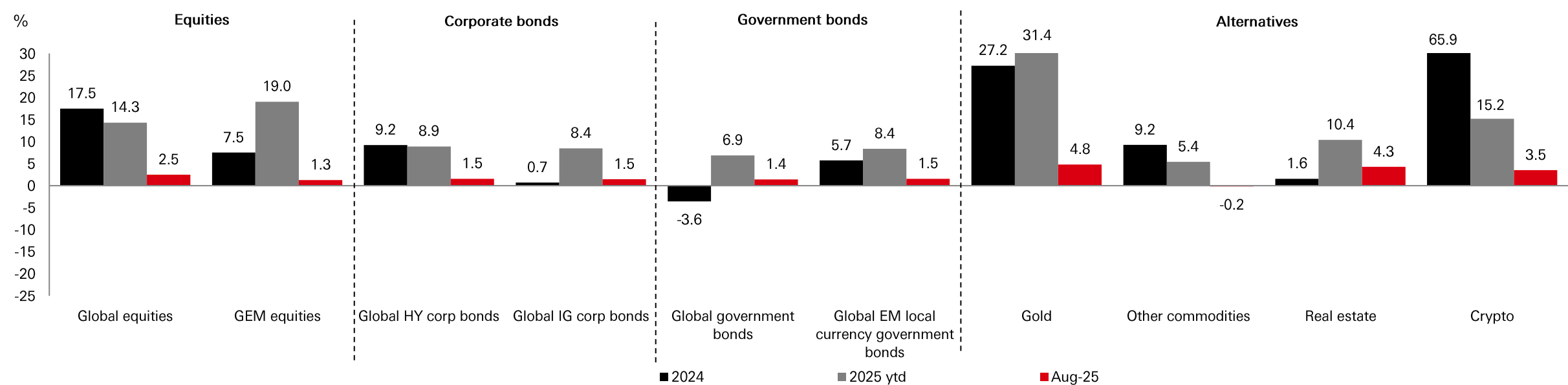
▼ Negative Bias

▼▼ Negative

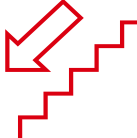
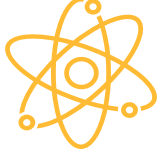






House view represents a >12-month investment view across major asset classes in our portfolios
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Global stocks experienced broad gains and subdued volatility in August. Emerging market indices saw some of the strongest returns, led by China onshore stocks. In fixed income, longer-dated European and Japanese government bond yields surged, but credit spreads remained tight. The US dollar saw further weakness

- ◆ **Government bonds** – US 10-year Treasury yields eased in August, but longer-dated bond yields remain elevated (and jumped in Europe and Japan) on rising fiscal risks, higher issuance, sticky (and likely rising) inflation, and cooling growth
- ◆ **Equities** – Japanese stocks saw the strongest DM gains, with the US S&P 500 back at new highs, and small-caps rallying. In EMs, China onshore stocks rose sharply, with Latam also performing well. India, Korea, and Taiwan lagged
- ◆ **Alternatives** – Expectations of a September US interest rate cut contributed to a pick-up in quoted real estate. The prospect of lower rates also buoyed gold, which has benefited this year from US dollar weakness and safe-haven flows


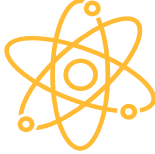








Past performance does not predict future returns. The level of yield is not guaranteed and may rise or fall in the future. This information shouldn't be considered as a recommendation to invest in the country or sector shown. The views expressed above were held at the time of preparation and are subject to change without notice. Source: Bloomberg, all data above as at close of business 31 August 2025 in USD, total return, month-to-date terms. Note: Asset class performance is represented by different indices. **Global Equities:** MSCI ACWI Net Total Return USD Index. **Global Emerging Market Equities:** MSCI Emerging Market Net Total Return USD Index. **Corporate Bonds:** Bloomberg Barclays Global HY Total Return Index value unhedged. Bloomberg Barclays Global IG Total Return Index unhedged. **Government bonds:** Bloomberg Barclays Global Aggregate Treasuries Total Return Index. JP Morgan EMBI Global Total Return local currency. **Commodities and real estate:** Gold Spot \$/OZ, Other commodities: S&P GSCI Total Return CME. **Real Estate:** FTSE EPRA/NAREIT Global Index TR USD. **Crypto:** Bloomberg Galaxy Crypto Index.

	 TOPPLING OVER	 SPINNING AROUND	 TAKING OFF
 Trade/ Fiscal	Tariff re-escalation and major US spending cuts (DOGE)	Tariffs around current level, moderate US spending cuts. Uncertainty impact	Tariffs abandoned. "Mission economy" takes hold in Europe
 Growth	Sharp slowdown as real incomes undermined and confidence hit	US growth moderates to around 1.0-1.5%. End of US exceptionalism	Animal spirits boost global growth. Europe catches up with resilient US
 Inflation	Short-term boost to US inflation, but fades as demand destroyed	3.0-3.5% in US , moderate across other DMs and many EMs	Settles in 2.0-2.5% "grey" range - not high enough to prompt Fed hikes
 Monetary Policy	Initial pause in rate cuts, but then big easing amid growth damage	Gradual easing for Western central banks and some EMs	Easing cycle cut short. Higher neutral rate
 China	Tariffs and property sector weakness weigh on growth	Stable growth as domestic policy easing offsets headwind from tariffs	Growth pickup as property sector recovers and confidence returns

Source: HSBC Asset Management, September 2025.




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	 TOPPLING OVER	 SPINNING AROUND	 TAKING OFF
 Stocks	SPX back to early 2023 levels. US tech most vulnerable. VIX spike	Broadening out of market leadership. SPX fat and flat range. VIX stays high	Global stocks perform well (SPX 7000?) High-beta markets shine
 Fixed income	Rates rally across the curve, curve steepens. Credit spreads widen	Range-bound yields, some upside risk to credit spreads. Focus on income flows	Some upside risk to yields as growth remains strong. Credit spreads still tight
 EM	EMs hit amid weaker global growth and trade challenges	Does well amid growth resilience, Fed cuts, China stimulus and good valuations	EM rallies as global growth projections upgraded, better trade news discounted
 USD	USD buoyed by safe-haven status, but weaker in Trump 2.0?	Tug of war between US inflation pressures vs end of US exceptionalism	Upside to USD limited by global growth expansion. EUR rallies
 Top bets	USTs, gold, CHF, macro HFs, best IG, defensives, quality, momentum	Value, quality, mid-caps. EM/Europe/Japan > western markets. IG > HY	Europe/China > US. HY credits. Industrial metals. China. Crypto>gold.

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Central banks taking a gradual approach

		Consensus		Policy 	
		Growth 	Inflation 	12m ahead policy rate (HSBC AM)	2025 Fiscal impulse
		■ 2025 ■ 2026	■ 2025 ■ 2026		
US	At the Jackson Hole symposium, Fed Chair Powell signalled a possible September rate cut, noting rising “downside risks” to employment “may warrant” a policy adjustment. Higher tariffs should have a one-off impact on inflation, whilst a squeeze on real income is likely to push growth below trend in H2 2025	<div><div>1.6</div><div>1.7</div></div>	<div><div>2.7</div><div>2.6</div></div>	3.50-4.00%	Mild drag
Eurozone	Following eight cuts since summer 2024, interest rates are in neutral territory. Surveys and growth data are lacklustre. Past EUR appreciation and softening wage growth imply modest downside inflation risks and possible further easing. Germany’s fiscal stimulus should support growth in 2026	<div><div>1.1</div><div>1.1</div></div>	<div><div>2.1</div><div>1.9</div></div>	1.25-1.75%	Neutral
UK	The BoE is split over the rate outlook, with the focus pivoting from the labour market to inflation. Q2 GDP slowed, with domestic demand fragile. Moderating wage growth should lower service sector inflation. The BoE is expected to maintain a gradual easing stance in H225, the risk is rate cuts are delayed to early 2026	<div><div>1.2</div><div>1.1</div></div>	<div><div>3.3</div><div>2.5</div></div>	3.25-3.75%	Mild drag
Japan	The BoJ remains on hold, with BoJ governor Ueda providing few hints of an early rate hike. GDP posted its fifth consecutive quarterly rise in Q2 but consumer spending was sluggish. Core inflation remains above the BoJ’s 2% target. Fiscal stimulus is likely soon, aimed at supporting the struggling household sector	<div><div>1.0</div><div>0.8</div></div>	<div><div>3.0</div><div>1.8</div></div>	0.75-1.00%	Neutral
China	Solid H1 activity data and the US-China trade truce allow policymakers to focus on structural priorities and strategies for sustainable and quality growth, while tackling domestic demand-supply imbalances. But incremental targeted policy support is likely amid property weakness and external uncertainties	<div><div>4.8</div><div>4.2</div></div>	<div><div>0.1</div><div>1.0</div></div>	1.10-1.40%	Moderate boost
India	Emerging growth risks from US tariffs and benign inflation could create room for further monetary easing, despite the RBI’s focus on transmission after taking front-loaded policy action. Fiscal and credit support for exporters, alongside tax reform (GST) and personal income tax relief, can help cushion external headwinds	<div><div>6.4</div><div>6.5</div></div>	<div><div>3.2</div><div>4.3</div></div>	5.00-5.50%	Neutral

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Source: HSBC Asset Management, consensus numbers from Bloomberg, September 2025. Any views expressed were held at the time of preparation and are subject to change without notice. While any forecast, projection or target where provided is indicative only and not guaranteed in any way. HSBC Asset Management (UK) Limited accepts no liability for any failure to meet such forecast, projection or target. This information shouldn't be considered as a recommendation to invest in the specific country mentioned.

Investment Views



Asset class positioning

House view represents a >12-month investment view across major asset classes in our portfolios

Key to views			
▲▲	Positive	↔▼	Neutral/Negative bias
▲	Positive Bias	▼	Negative Bias
↔▲	Neutral/Positive bias	▼▼	Negative
↔	Neutral		

Asset class		House view	Comments
Equities	Global	↔▲	Markets face potential volatility amid continuing policy uncertainty, signs of slowing global growth, and geopolitical risks, although falling rates should be supportive. We expect more broadening out of both profits and asset returns beyond the US technology sector and mega-cap growth into other regions, sectors, and styles
	US	↔	Overall profits growth has come in ahead of expectations so far in 2025. Risks to the outlook include elevated policy uncertainty, global threats to tech sector dominance, and weaker confidence. Rate cuts, looser fiscal policy, tax cuts, and deregulation could be supportive. Rich valuations in parts of the market make prices vulnerable to disappointment
	UK	↔	UK stocks have performed well but continue to trade at valuation discounts relative to other regions and offer an attractive combined dividend and buyback yield. Weak domestic growth is a risk, but further policy easing should be beneficial. Firms remain vulnerable to volatility driven by signs of slowing global growth and policy uncertainty
	Eurozone	↔▲	Eurozone stocks offer both value and cyclical exposure partially linked to China and could benefit as global market leadership broadens out. Profits expectations for 2025 should be met, but the growth outlook could be affected by global trade policy uncertainty. Fiscal spending commitments in Germany should support long-run growth
	Japan	↔	The earnings outlook for cyclical areas is sensitive to global macro and trade conditions. Potential strength in the yen and JGB yields could add further headwinds. However, valuations remain attractive, bolstered by ongoing corporate reforms and initiatives designed to be investor-friendly. We believe domestically-oriented sectors look more favourable
	Emerging Markets (EM)	▲	Premium growth rates are evident in EMs, where overall valuations remain favorable. A weaker dollar can bolster EM equities, which are currently under-owned, as reflected by their low multiples. However, EMs should not be treated as a single bloc given their idiosyncrasies. It’s crucial to remain selective amid ongoing trade policy and geopolitical uncertainty
	CEE & Latam	▼	In Central and Eastern Europe, economies face mixed challenges complicated by global trade tensions and geopolitical developments. Latam equity valuations remain undemanding, but political risks, a mixed commodity outlook, and the domestic macro backdrop present near-term headwinds, along with the potential impact of trade policy on regional economies
	Frontier Markets	▲	A key attraction of frontier markets is exposure to smaller, rapidly-growing, domestically-driven economies that benefit from local idiosyncrasies. There tends to be low intra-country correlation between them, and they benefit from comparatively low volatility, potentially attractive valuations, and relatively strong earnings growth
Government bonds	Developed Markets (DM)	↔▲	A combination of global policy uncertainty, the re-emergence of global growth concerns, and rising fiscal and inflation risks has resulted in government bond yields remaining elevated and yield curves steepening. Outside of a US recession scenario, a sustained decline in yields is unlikely
	US 10-year	↔	Yields have been volatile in recent months reflecting the uncertain macro and policy outlook. Slower growth and downside risks in the labour market should lead to modest Fed easing, with a gradual decline in rates, but inflation risks and fiscal concerns are likely to keep yields above 4%
	UK 10-year	▲	Gilt yields have been elevated recently, driven by global yield moves and increased policy uncertainty. Rising domestic fiscal and inflation concerns have weighed on Gilts amid fading hopes of early policy easing by the Bank of England. The 10-year yield spread between the UK and US has widened accordingly
	German 10-year	▲	10-year Bund yields have been range-bound as the ECB signals a wait-and-see stance ahead of further policy moves. The euro area economy has been resilient in the first half of 2025, with inflation at the ECB’s 2% target. Falling inflation and potential ECB policy easing mean Bunds can perform well in periods of market stress
	Japan	▼	The BoJ’s decision to hold rates reinforces the expectation that the path to policy normalisation will be gradual. Conditions will likely remain accommodative with the central bank signalling no rush to raise rates amid global policy uncertainty. With minimal bond risk premia, we remain underweight Japanese government bonds
	Inflation-linked bonds	↔▲	Global (ex-US) breakevens (the difference between nominal yields and real yields) have recently rebounded amid concerns over sticky inflation. But valuations remain cheap for US ILBs, with markets pricing almost no inflation risk premium
	EM local currency	▲	Emerging market local currency debt looks positioned to do well in a backdrop of high real yields, strong fundamentals, and a weaker US dollar. Indeed, strengthening EM currencies, combined with falling inflation, are allowing EM central banks to ease policy, further boosting the appeal of EM local bond markets to global investors

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↕▲	Neutral/Positive bias	▼▼	Negative
↔	Neutral		

Asset class	House view	Comments
Corporate bonds	Global investment grade (IG)	↕▲ IG credit spreads remain low in a historical context. Nonetheless, all in yields remain reasonable. Global policy uncertainty remains a potential risk, particularly if it leads to a widespread loss of confidence and an unexpectedly sharp slowdown
	USD IG	↕▲ US IG spread valuations remain way below long-term averages. All in yields are high, but demand has taken a hit. Fundamental credit metrics remain solid, but US IG would be vulnerable to general risk-off episodes and any structural push towards de-dollarisation
	EUR and GBP IG	↕▲ European IG credit valuations have improved but are not compelling, with all in yields still relatively attractive. The main risk for is a global risk-off event, and returns could also be affected if inflation risks prevent the ECB from easing policy according to plan
	Asia IG	↕▲ Asia IG benefits from attractive all in yields and limited issuance amid accommodative onshore funding conditions, as credit fundamentals remain sound. Asia IG’s shorter duration and strong quality bias help reduce overall volatility. We emphasise credit selection with a focus on idiosyncrasies amid global rate volatility and macro/policy uncertainty
	Global high-yield (HY)	↕▼ The risk to spreads may be to the upside given their rapid retracement from peaks earlier this year. It comes as cooling growth, inflation risks, and ongoing policy uncertainty all present potential risks to corporate profits. We maintain a more defensive stance with a preference for higher quality credits
	US HY	▼ Investor sentiment has improved following the de-escalation of tariff uncertainty between the US and China. However, policy headlines and potential for further tension could still influence spreads during the rest of 2025. Spreads could widen if trade deals do not come to fruition, disappoint in scope, or if tariffs revert to higher levels
	Europe HY	▼ Current valuations are not compelling, with near-term uncertainty looking higher than usual. Single-B valuations look expensive, with these issuers sensitive to growth risks and financing rates. We like banks and insurers where credit fundamentals are strong, but we are underweight autos where structural challenges compound cyclical weakness
	Asia HY	↕▲ Asia HY offers attractive yields and spread tightening potential relative to global peers. Positive technicals are aided by accommodative domestic macro policies and lower onshore rates. The market is now much more diversified structurally, and the wide dispersion in valuations across sectors provides opportunities amid elevated global uncertainty
	Securitised credit	▲ Spreads remain wider than the tights of the range since 2009 so there is long-term value in securitised credit compared to other credit markets. As long as rates remain high, floating securitised credit can generate high income because base rates feed directly into the income paid
FX & Alternatives	EM hard currency (USD)	▲ EM hard-currency debt is a structurally improving asset class with ratings upgrades outpacing downgrades. Moreover, policy stimulus from China and Europe provides some offset to headwinds from trade tariffs. Any spread widening from here is likely to be limited
	Gold	▲ Gold has traded close to all-time highs in 2025, with central banks continuing to be major buyers. Investor demand has also been strong, driven by a flight to safe-haven assets as a result of rising geopolitical tensions, global policy uncertainty, and financial market volatility
	Other commodities	↔ Geopolitical tensions have emerged as a heightened risk factor. China’s economic story will be a critical driver, with a meaningful recovery likely to provide a boost to prices. OPEC+ market management is also a key influence on oil prices
	Real assets	▲▲ Real estate values are bottoming, although office values are still falling. Investment activity could remain subdued given uncertainty over global growth and the repricing of rate cuts. Meanwhile, infrastructure debt offers better expected returns than global credits, and lower spread volatility during economic slowdowns
	Hedge funds	▲▲ Hedge funds can be good diversifiers in an environment of elevated inflation and market phases where there are sharp upticks in volatility. Macro and CTA strategies can be particularly attractive alternatives to bonds when there are positive stock-bond correlations
	Private credit	▲▲ With elevated rate uncertainty, private credit yields remain attractive due to their illiquidity premium. The asset class is expected to see further growth this year, and default rates remain relatively low. An upside of global policy uncertainty is that it can lead to improved lender terms/increased yields both on new transactions and refinancings
	Private equity	↔ Private equity deal flow started well this year, but global policy uncertainty has since put pressure on dealmaking. There is dry powder waiting to be deployed once market conditions settle, confidence returns, and valuation gaps narrow. With further clarity around tariffs, there could be a resurgence of activity
	US dollar (DXY)	▼ We expect a continued weakening trend for the USD, albeit more gradual than seen in H1 2025. In real effective terms, the USD remains above its long-run average which implies meaningful downside over longer-horizons. Slower growth and Fed rate cuts present a cyclical headwind to the USD
FX & Alternatives	Crypto	▼▼ Crypto prices have declined from highs earlier in 2025 and remain highly correlated to risk and US administration news flow. More regulatory certainty could provide upside, but high sensitivity to sentiment and thin liquidity could deter mainstream institutional investors

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↔▲	Neutral/Positive bias	▼▼	Negative
↔	Neutral		

Asset class		House view	Comments
Asian assets	Asia local bonds	▲	Asia’s sound external fundamentals, debt profiles and policy mix help lower local rate sensitivity to external market pressures eg. higher US term premium and rates volatility. Benign inflation and monetary easing bias remain supportive, alongside looming Fed easing and a soft USD environment. We focus on idiosyncratic opportunities across regional curves
	RMB bonds	↔▲	Reflationary policy efforts, easing growth concerns on US-China trade progress, a recovery in credit impulse, and a rally in Chinese equities have all exerted upward pressures on CGB yields. But benign inflation and an accommodative monetary/liquidity backdrop remain favorable for CGBs amid macro uncertainty, alongside potential foreign asset allocation flows
	Asia ex-Japan equities	▲	Asian markets offer broad sector diversification and attractively-valued quality-growth opportunities. Prudent policy easing across the region, China’s policy put, and other long-term themes continue to serve as positives, on top of potential diversification flows into non-USD assets. However, persistent external uncertainties could amplify market volatility
	China equities	▲	The government’s “anti-involution” signals, targeted policy measures, optimism on tech developments, and an extended US-China tariff truce continue to support market confidence. Valuation discounts still reflect concerns over various challenges and geopolitical risks, but firms’ relatively low overseas exposure may partially shield them from external headwinds
	India equities	▲	Valuations remain rich compared to Asian peers, especially for mid-cap stocks amid ongoing external trade uncertainties. That said, analysts remain positive on the earnings outlook, alongside a largely supportive policy backdrop. India’s domestic-oriented market environment and a strong structural story serve as positive catalysts in the medium term
	ASEAN equities	↔▲	Overall valuations are fair, alongside the support from further monetary easing and structural drivers. The earnings outlook is largely solid despite continuing volatility and divergence across markets. Nevertheless, exposure to global trade uncertainties, regional fund-flows, idiosyncratic risks such as domestic developments warrants caution
	Hong Kong equities	▲	Market sentiment remains buoyed by dynamic capital market activities, along with spillovers from Chinese policy measures and tech sector developments, despite ongoing worries about domestic macro conditions and external challenges. However, valuations are fair, reflected in slightly below-long-term average multiples, and relatively high dividend yields
	Asia FX (ADXY)	↔▲	Asian currencies are supported by sound external balances, relative growth resilience, and cheap valuations. Increased hedging of USD assets, FX conversion by exporters, and diversification flows into non-US assets provide support. However, persistent global trade and policy uncertainty could trigger further volatility as the region braces for tariffs

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On Top of Investor's Minds



US stock markets are at all-time highs. What happened?

This summer, US markets have rebounded at near-record speeds with prices hitting fresh all-time highs. Q2 earnings beat expectations, and technology stocks are driving the market amid renewed enthusiasm over AI. Stock volatility has generally fallen, credit spreads are close to decade lows, and analysts have nudged up their profit forecasts for S&P 500 firms.

In part, lower 10-year bond yields are helping. That lower cost of capital means investors can live with skinny credit spreads and higher PE multiples. Likewise, a weaker dollar also helps – both as a terms-of-trade profits booster for larger companies exporting from the US, and for foreign investors looking to buy in.

Should investors be spooked by markets at new highs?

Buying into markets at all-time highs can feel uncomfortable for those investors worried about the potential for a fall or buying stocks on stretched valuations. Yet, on average, “time in the market” rather than “timing the market” has shown to be a preferable strategy that’s easier to stick with. And managing risks through portfolio diversification, using public and private credits and real assets for example, could offer protection against volatility. For longer-term investors it could also make sense to buy into markets with higher equity risk premiums – such as many EMs – which can make them less vulnerable to disappointments.

Why could the US stock market be more vulnerable?

US indices may be somewhat shielded from conventional macro and policy effects given the outsized influence of tech and AI. But this sector is still vulnerable given stretched valuations. There are doubts over the return on investment in the sector, and how impactful AI will ultimately prove for firms’ bottom lines. Concentrated portfolios exposed to the fortunes of a few companies are by construction more idiosyncratic and less diversified. Plus, if concentration is in the most expensive parts of the stock market – as it is today – it implies bigger downside risks.

Meanwhile, for the rest of the index, undercurrents could point to choppy waters ahead. Economic activity is slowing. Recent payroll prints show a significant slowdown in hiring at US firms. Meanwhile, imports to the US will now see average effective tariffs close to 20% – the highest level since the 1930s. And beneath the surface, corporate profits face headwinds. Higher tariffs mean consumer sectors, in particular, face a tricky trade-off between hiking prices and losing customers.

What did we learn from US Fed Chair Jerome Powell at Jackson Hole?

Faced with the uncertain impact of tariffs on inflation, the Federal Reserve kept policy rates unchanged in July. But in his speech at the Jackson Hole symposium in August, Fed Chair Jerome Powell struck a more dovish tone. Concerns about employment – the other key focus of the Fed's dual mandate – have come to the fore. Labour supply and demand has been stable, but jobs growth is slowing, and the fear is that it will weaken further. Powell noted that "in the near term, risks to inflation are tilted to the upside, and risks to employment to the downside – a challenging situation". But he also sounded more comfortable looking-through tariff inflation, referring to it as a "one time" effect. Overall, there now appears to be a clear bias to cut.

Are the bond market vigilantes back?

Long bond yields have been rising and yield curves steepening in recent months – a trend that accelerated in markets like Japan, the UK, and parts of Europe during August. This global pattern reflects the fact that as fiscal worries and inflation risks rise, investors are demanding more risk premium to own long bonds. A buyer's strike by bond investors – earning them the moniker of "the bond market vigilantes" – can drive yields higher. Investors should keep an eye on how longer-term inflation expectations are behaving in markets to gauge how this risk is evolving. A further deterioration of macro conditions (lower growth, higher inflation), and a lack of willingness from governments to address fiscal substantiality could keep investors on edge.

EMs have done well so far this year. Can they continue to outperform?

Despite performing well this year, EM valuations remain lower than in many developed markets. China's economy is stable, despite some lingering worries over deflationary pressures, with a "policy put" helping to buoy confidence. Tech has been a big theme this year too. China is strong in AI research, and Asian export-led economies like Taiwan and Korea are already pivotal in global semiconductor manufacturing, with the AI boom acting as a potential further catalyst. Broadly speaking, as the US economy is cooling, EM growth expectations continue to hold up and weaker-than-expected inflation is creating space for further policy easing.

However, local idiosyncrasies mean EMs shouldn't be treated as a single bloc. Correlations between EM stock returns show that some key countries don't tend to perform the same. China and India are a good example. From here, we think more economic fragmentation could reduce EM correlations even further. For investors, it means taking a granular approach to capture diversification in these markets.

Apart from the likelihood of multi-year USD bear market, what can help EM assets do well in the long run?

We think EM assets will be supported by economic power shifting to Asia and the Global South. Sluggish structural growth in western economies contrasts with 5-7% average GDP in the domestic demand driven Asia giants (like India, Indonesia), or in new export hubs (like Vietnam). This premium growth is underpinned by more favourable demographics.

EM fundamentals have also improved. In 2013, investors fretted about the "fragile five" EM economies, with large current account deficits and weak policy frameworks. Today, the same group of countries exhibit high real yields, competitively valued exchange rates, and sound external balances. Finally, signs show that the EM asset class is maturing. Domestic investors are becoming more important in local markets. That means EM can decouple from the global liquidity cycle.

Market Data



August 2025

EQUITY INDICES	Close	MTD Change (%)	3M Change (%)	1-year Change (%)	YTD Change (%)	52-week High	52-week Low	Fwd P/E (X)
World								
MSCI AC World Index (USD)	952	2.4	8.2	14.1	13.1	957	723	20.4
North America								
US Dow Jones Industrial Average	45,545	3.2	7.7	9.6	7.1	45,758	36,612	22.5
US S&P 500 Index	6,460	1.9	9.3	14.4	9.8	6,508	4,835	24.1
US NASDAQ Composite Index	21,456	1.6	12.3	21.1	11.1	21,804	14,784	31.5
Canada S&P/TSX Composite Index	28,564	4.8	9.1	22.4	15.5	28,607	22,228	17.6
Europe								
MSCI AC Europe (USD)	648	3.2	3.4	10.7	22.5	663	516	15.6
Euro STOXX 50 Index	5,352	0.6	-0.3	7.9	9.3	5,568	4,540	16.0
UK FTSE 100 Index	9,187	0.6	4.7	9.7	12.4	9,358	7,545	13.9
Germany DAX Index*	23,902	-0.7	-0.4	26.4	20.1	24,639	18,209	17.1
France CAC-40 Index	7,704	-0.9	-0.6	1.0	4.4	8,258	6,764	16.3
Spain IBEX 35 Index	14,936	3.7	5.5	31.0	28.8	15,444	11,139	13.0
Italy FTSE MIB	42,196	2.9	5.3	22.8	23.4	43,564	31,946	13.1
Asia Pacific								
MSCI AC Asia Pacific ex Japan (USD)	663	1.4	8.9	14.8	16.4	676	507	16.0
Japan Nikkei-225 Stock Average	42,718	4.0	12.5	10.5	7.1	43,876	30,793	20.9
Australian Stock Exchange 200	8,973	2.6	6.4	10.9	10.0	9,055	7,169	20.6
Hong Kong Hang Seng Index	25,078	1.2	7.7	39.4	25.0	25,919	16,964	12.0
Shanghai Stock Exchange Composite Index	3,858	8.0	15.2	35.7	15.1	3,889	2,690	15.1
Hang Seng China Enterprises Index	8,948	0.7	6.1	41.3	22.7	9,296	5,928	11.2
Taiwan TAIEX Index	24,233	2.9	13.5	8.8	5.2	24,570	17,307	18.3
Korea KOSPI Index	3,186	-1.8	18.1	19.1	32.8	3,288	2,285	11.5
India SENSEX 30 Index	79,810	-1.7	-2.0	-3.1	2.1	85,978	71,425	22.3
Indonesia Jakarta Stock Price Index	7,830	4.6	9.1	2.1	10.6	8,023	5,883	12.6
Malaysia Kuala Lumpur Composite Index	1,575	4.1	4.4	-6.2	-4.1	1,684	1,387	14.5
Philippines Stock Exchange PSE Index	6,156	-1.6	-2.9	-10.8	-5.7	7,605	5,805	9.9
Singapore FTSE Straits Times Index	4,270	2.3	9.6	24.0	12.7	4,283	3,372	13.8
Thailand SET Index	1,237	-0.5	7.6	-9.0	-11.7	1,507	1,054	14.1
Latam								
Argentina Merval Index	1,984,845	-14.4	-12.9	15.6	-21.7	2,867,775	1,677,388	8.8
Brazil Bovespa Index*	141,422	6.3	3.2	4.0	17.6	142,379	118,223	9.1
Chile IPSA Index	8,900	8.7	10.6	37.8	32.6	8,943	6,205	12.5
Colombia COLCAP Index	1,846	4.1	14.7	35.5	33.8	1,866	1,295	7.1
Mexico S&P/BMV IPC Index	58,709	2.3	1.5	12.9	18.6	59,735	48,770	12.8
EEMEA								
Saudi Arabia Tadawul All Share Index	10,697	-2.0	-2.7	-11.9	-11.1	12,536	10,429	13.7
South Africa JSE Index	101,836	3.4	8.0	21.6	21.1	103,266	77,165	12.2
Turkey index	11,372.3	5.1	25.2	14.8	14.8	11,605.3	8,566.6	4.3

Sources: Bloomberg, HSBC Asset Management. Data as at close of business 31 August 2025. (*) Indices expressed as total returns. All others are price returns.
Past performance does not predict future returns. The level of yield is not guaranteed and may rise or fall in the future.

Market Data (continued)

August 2025

EQUITY INDICES - TOTAL RETURN	3-month Change (%)	YTD Change (%)	1-year Change (%)	3-year Change (%)	5-year Change (%)	Dividend Yield (%)
Global equities	8.5	14.3	15.8	62.9	76.2	1.8
US equities	9.6	10.6	16.0	69.1	92.2	1.2
Europe equities	3.7	25.0	13.3	66.2	68.4	3.2
Asia Pacific ex Japan equities	9.5	18.3	17.2	37.1	30.5	2.6
Japan equities	7.3	17.8	12.9	55.8	51.5	2.2
Latam equities	9.7	34.3	13.1	34.2	68.0	4.9
Emerging Markets equities	9.5	19.0	16.8	36.1	28.9	2.5

All total returns quoted in USD terms.
Data sourced from MSCI AC World Total Return Index, MSCI USA Total Return Index, MSCI AC Europe Total Return Index, MSCI AC Asia Pacific ex Japan Total Return Index, MSCI Japan Total Return Index, MSCI Latam Total Return Index and MSCI Emerging Markets Total Return Index.

BONDS	Close	End of last month	3-months Ago	1-year Ago	Year End 2024
US Treasury yields (%)					
3-Month	4.14	4.34	4.33	5.11	4.31
2-Year	3.62	3.96	3.90	3.92	4.24
5-Year	3.70	3.97	3.96	3.70	4.38
10-Year	4.23	4.37	4.40	3.90	4.57
30-Year	4.93	4.90	4.93	4.20	4.78
Developed market 10-year bond yields (%)					
Japan	1.60	1.55	1.49	0.89	1.09
UK	4.72	4.57	4.65	4.01	4.56
Germany	2.72	2.69	2.50	2.30	2.36
France	3.51	3.35	3.16	3.02	3.19
Italy	3.59	3.51	3.48	3.70	3.52
Spain	3.33	3.27	3.09	3.13	3.06

BOND INDICES - TOTAL RETURN	Close	MTD Change (%)	3-month Change (%)	1-year Change (%)	YTD Change (%)
BarCap GlobalAqq (Hedged in USD)	599	0.5	1.4	3.5	3.3
JPM EMBI Global	972	1.5	5.1	8.0	8.4
BarCap US Corporate Index (USD)	3,464	1.0	3.0	3.9	5.3
BarCap Euro Corporate Index (Eur)	264	0.0	0.8	4.5	2.4
BarCap Global High Yield (USD)	670	1.1	3.8	9.9	6.8
BarCap US High Yield (USD)	2854	1.2	3.6	8.3	6.4
BarCap pan-European High Yield (USD)	630	0.5	2.4	8.9	5.4
BarCap EM Debt Hard Currency	480	1.5	4.4	8.2	8.6
Markit iBoxx Asia ex-Japan Bond Index (USD)	238	1.1	2.9	5.6	5.6
Markit iBoxx Asia ex-Japan High-Yield Bond Index (USD)	279	1.4	4.0	8.2	6.9

Sources: Bloomberg, HSBC Asset Management. Data as at close of business 31 August 2025. Total return includes income from dividends and interest as well as appreciation or depreciation in the price of an asset over the given period. Past performance does not predict future returns. The level of yield is not guaranteed and may rise or fall in the future.

Market Data (continued)

August 2025

CURRENCIES (VS USD)	Latest	End of last month	3-months Ago	1-year Ago	Year End 2024	52-week High	52-week Low
Developed markets							
DXY index	97.77	99.97	99.33	101.70	108.49	110.18	96.38
EUR/USD	1.17	1.14	1.13	1.10	1.04	1.18	1.01
GBP/USD	1.35	1.32	1.35	1.31	1.25	1.38	1.21
CHF/USD	1.25	1.23	1.22	1.18	1.10	1.27	1.09
CAD	1.37	1.39	1.37	1.35	1.44	1.48	1.34
JPY	147.1	150.8	144.0	146.2	157.2	158.9	139.6
AUD	1.53	1.56	1.55	1.48	1.62	1.69	1.44
NZD	1.70	1.70	1.68	1.60	1.79	1.82	1.57
Asia							
HKD	7.80	7.85	7.84	7.80	7.77	7.85	7.75
CNY	7.13	7.20	7.20	7.09	7.30	7.35	7.00
INR	88.21	87.60	85.58	83.87	85.61	88.34	83.44
MYR	4.23	4.27	4.26	4.32	4.47	4.52	4.09
KRW	1,390	1,394	1,382	1,338	1,479	1,487	1,303
TWD	30.57	29.88	29.88	31.96	32.79	33.28	28.79
Latam							
BRL	5.43	5.60	5.72	5.61	6.17	6.32	5.38
COP	4,021	4,187	4,159	4,178	4,406	4,546	3,951
MXN	18.66	18.88	19.44	19.73	20.83	21.29	18.51
ARS	1,344.48	1,370.20	1,189.45	951.20	1,030.99	1,381.17	952.67
EEMEA							
RUB	81.06	80.54	77.50	90.47	113.52	115.07	74.05
ZAR	17.66	18.22	18.00	17.82	18.84	19.93	17.04

COMMODITIES	Latest	MTD Change (%)	3-month Change (%)	1-year Change (%)	YTD Change (%)	52-week High	52-week Low
Gold	3,448	4.8	4.8	37.7	31.4	3,509	2,472
Brent Oil	68.1	-6.1	6.6	-13.6	-8.7	83	58
WTI Crude Oil	64.0	-7.6	5.3	-13.0	-10.8	81	55
R/J CRB Futures Index	302	0.9	4.1	9.1	1.9	317	265
LME Copper	9,902	3.0	4.3	7.2	12.9	10,165	8,105

Sources: Bloomberg, HSBC Asset Management. Data as at close of business 31 August 2025.
Past performance does not predict future returns. The level of yield is not guaranteed and may rise or fall in the future.

Appendix – Charts

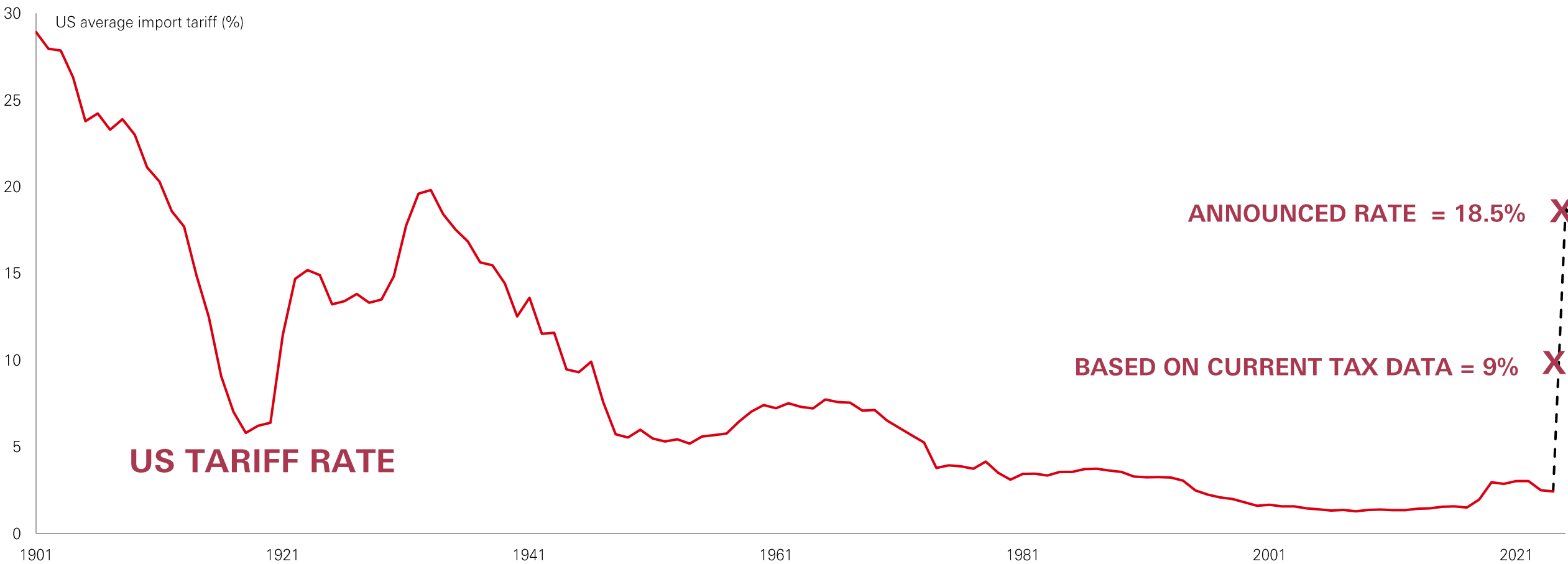


US policy uncertainty index (black) and VIX volatility (red)



Source: Macrobond, Bloomberg, HSBC Asset Management, September 2025.
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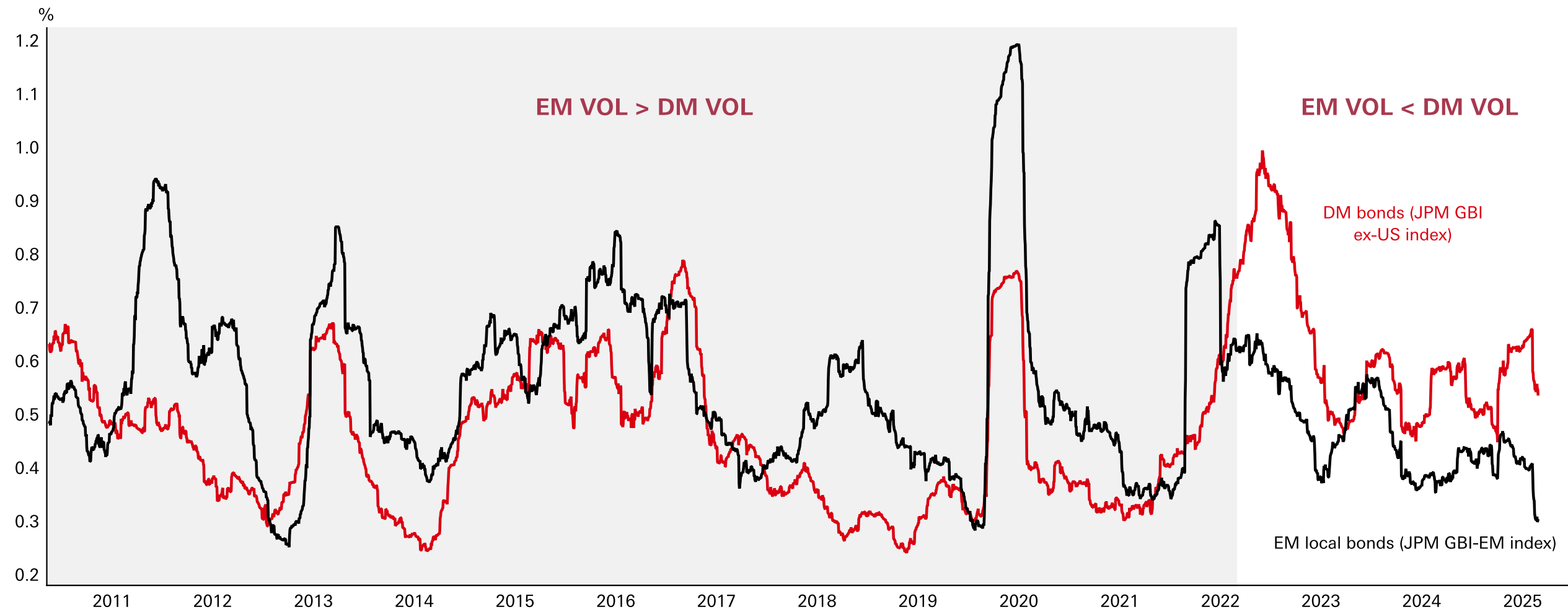
US tariffs have increased, well beyond what was expected



Source: Yale Budget Lab, HSBC Asset Management, September 2025.
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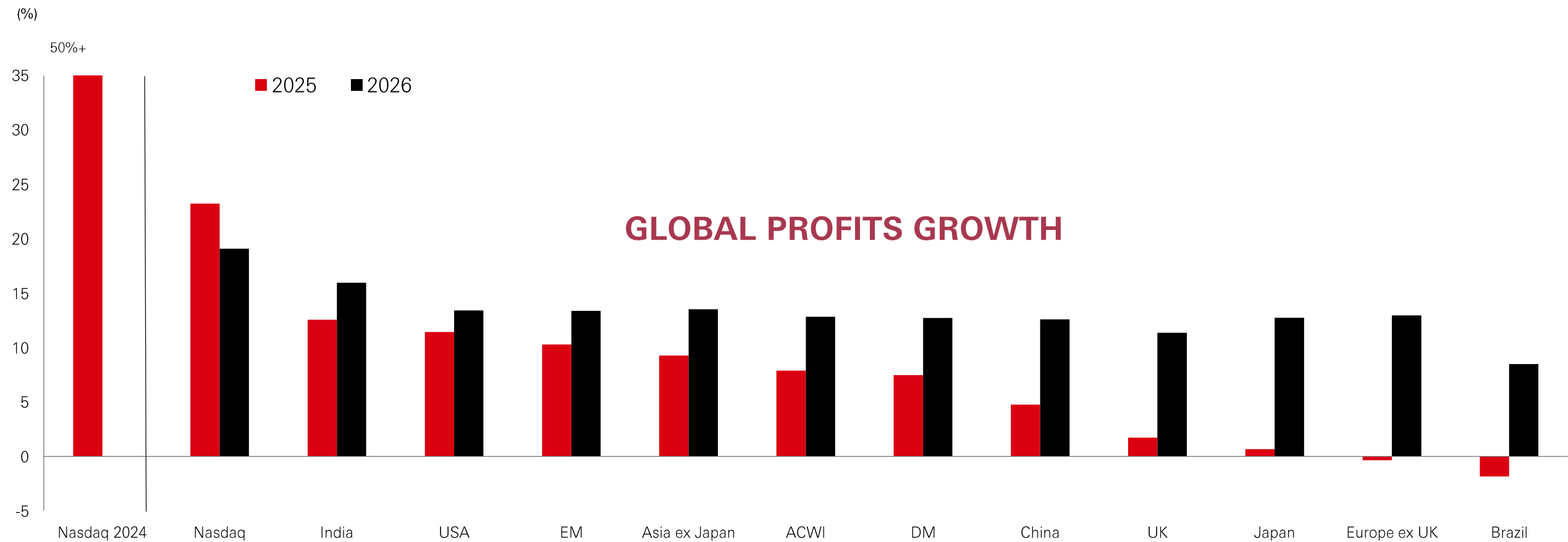
EMs are now LESS volatile than DMs

Bond market total return volatility (90 day rolling measure)



Source: Macrobond, HSBC Asset Management, September 2025. EM – Emerging Markets, DM – Developed Markets
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Global EPS growth in 2025 and 2026

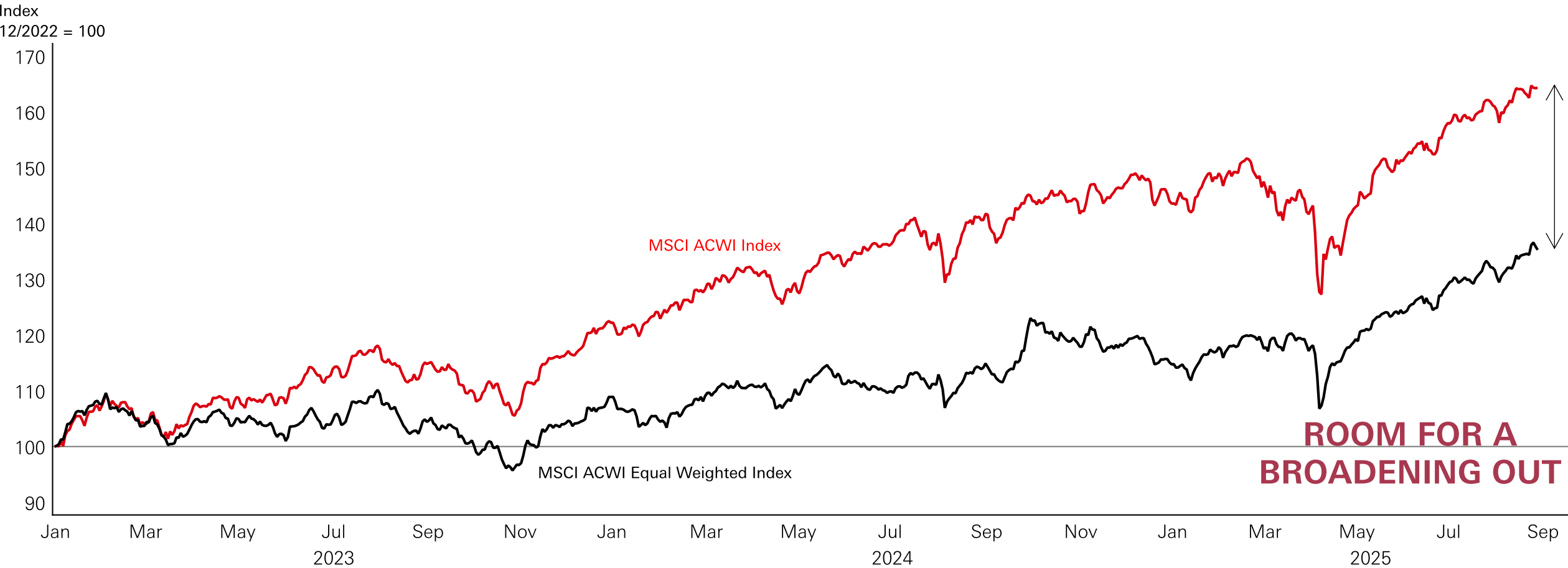


Past performance does not predict future returns.
Note: Nasdaq IBES profit data for 2024e (only) is very volatile, so 50%+ used. Source Refinitiv, HSBC Asset Management, Refinitiv, IBES, September 2025. The commentary and analysis presented in this document reflect the opinion of HSBC Asset Management on the markets, according to the information available to date. They do not constitute any kind of commitment from HSBC Asset Management. Consequently, HSBC Asset Management will not be held responsible for any investment or disinvestment decision taken on the basis of the commentary and/or analysis in this document. Any forecast, projection or target where provided is indicative only and is not guaranteed in any way. HSBC Asset Management accepts no liability for any failure to meet such forecast, projection or target. Index returns assume reinvestment of all distributions and do not reflect fees or expenses. You cannot invest directly in an index.

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Equal-weighted index has lagged market cap index



Source: Macrobond, HSBC Asset Management, September 2025.
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Important information

Basis of Views and Definitions of 'Asset class positioning' tables

- ◆ Views are based on regional HSBC Asset Management Asset Allocation meetings held throughout **August 2025**, HSBC Asset Management's long-term expected return forecasts which were generated as at **31 July 2025**, our portfolio optimisation process and actual portfolio positions.
- ◆ **Icons:** ↑ View on this asset class has been upgraded – No change ↓ View on this asset class has been downgraded.
- ◆ Underweight, overweight and neutral classifications are the high-level asset allocations tilts applied in diversified, typically multi-asset portfolios, which reflect a combination of our long-term valuation signals, our shorter-term cyclical views and actual positioning in portfolios. The views are expressed with reference to global portfolios. However, individual portfolio positions may vary according to mandate, benchmark, risk profile and the availability and riskiness of individual asset classes in different regions.
- ◆ "*Overweight*" implies that, within the context of a well-diversified typically multi-asset portfolio, and relative to relevant internal or external benchmarks, HSBC Global Asset Management has (or would have) a positive tilt towards the asset class.
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- ◆ For Asia ex Japan equities, the underweight, overweight and neutral categories for the region at the aggregate level are also based on high-level asset allocation considerations applied in diversified, typically multi-asset portfolios. However, individual country views are determined relative to the Asia ex Japan equities universe as of **31 July 2025**.
- ◆ Similarly, for EM government bonds, the underweight, overweight and neutral categories for the asset class at the aggregate level are also based on high-level asset allocation considerations applied in diversified, typically multi-asset portfolios. However, EM Asian Fixed income views are determined relative to the EM government bonds (hard currency) universe as of **31 August 2025**.

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Content ID:D053733_v1.0; Expiry Date: 03.09.2026

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