

HSBC Investment Outlook – August 2025 Monthly View**Willem Sels**

Markets have rallied sharply in recent weeks but we maintain our risk-on exposure as we foresee further upside for several reasons.

Firstly, the global economic backdrop has proven to be brighter than anticipated just a few months ago. Although some of the activity is related to front-loading, recent PMI rebounds do suggest that the cycle is resilient, which is also reflected in stronger-than-expected Q2 earnings.

Analysts are revising forecasts higher as a result of those positive surprises. Technology continues to lead global equities, and that's not just driven by hype, but by rapid AI adoption, and beyond cyclical drivers, structural support and regulatory clarity from measures like the US Genius act, are further reinforcing investor confidence in the sector.

And all of that benefits semiconductors and our investment themes, including the Evolving AI Ecosystem, Robots and Automation and Aerospace and Security. And of course, our US equity overweight continues to benefit from this AI-related optimism and tech leadership, as well as the US economic resilience.

Some more calm in the bond markets is helping risk sentiment too. US 10-year Treasury yields are well below the critical threshold of 4.7% where we tend to see equity market stress. US CPI is in check, while outside of the US, inflation is trending downwards. And while concerns around Fed independence could steepen the yield curve, they also raise the possibility of more rate cuts, helping bond yields to be range-bound.

Now on the trade front, the recent US-Japan deal has lifted hopes for further deals, and markets appear to be gradually less sensitive to tariff risks than in the past. And in China, reforms to tackle oversupply and deflation – two issues that have weighed on sentiment for some time – are being positively received. Authorities are now focussed on reducing excess capacity in sectors such as steel, autos and heavy industry.

And while implementation will take time, markets view this policy shift as a constructive step to improving pricing and earnings dynamics, so we maintain our overweight on Chinese stocks. Of course, risks remain. US equity valuations are getting more elevated, and some measures of investor positioning are getting stretched, which could result in short-term volatility. But given the many positives that I mentioned, a risk-on stance remains appropriate, and we manage any risk of brief dips through active diversification and volatility management.