Q1 / 2025

Think Future 2025

Your guide to the global investment landscape

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A clearer outlook and solid growth drivers paint a bright picture for equities

As an eventful 2024 comes to an end, we now stand on the brink of a promising new chapter, with additional clarity supporting an optimistic outlook for equities and a renewed focus on fundamentals. Most notably, it's clear that the rate-cut path adopted by most developed market central banks and the power of innovation will remain key factors of support for global equities in 2025. The positive sign that the US is on a solid growth trajectory, albeit at a slower pace, also alleviates recession fears, while growth momentum should broaden as we get more clarity on the new US administration's policy priorities.

What does this mean for investors?

As interest rates are edging down, companies and investors with abundant cash reserves shouldn't rest on their laurels and let their real returns diminish. With most central banks on course to cut rates, the positive impact of lower borrowing costs should play out more visibly in 2025, leading to a rebound in M&A activity, increased dividends and share buybacks, as well as more corporate investment in innovation – all of which will continue to drive equity performance.

We remain most bullish on US equities, as earnings should continue to deliver upside surprises against a resilient economic backdrop. Why? We think economists tend to underestimate US economic growth, which is expected to remain close to 2% in 2025, and overestimate the importance of economic indicators, such as yield curve inversion. Meanwhile, improving fundamentals in the UK and diverse opportunities in Asia, led by India, Singapore and Japan, also underpin return potential for equities in those markets and help to widen the opportunity set.

Structural trends and policy priorities uncover sector opportunities

In addition to geographical exposure, we also look to structural trends and policy priorities to identify potential sector winners, and it's no surprise that the technology sector remains our top pick to deliver robust earnings growth. But innovation also benefits other sectors, such as healthcare and industrials, thanks to the wide application of artificial intelligence, while typically high-dividend utilities stocks should gain from declining interest rates. The US under the Trump administration is likely to prioritize tax cuts and deregulation, supporting the financials and energy sectors. However, higher trade tariffs will be a potential threat to markets having a big trade surplus with the US, so China and the Eurozone may be most exposed to this headwind. Having said that, we believe this may trigger further policy stimulus from China to mitigate downside risks and revive domestic demand.

While we're optimistic about a positive investment journey for equities in 2025, it's important to remain vigilant, as we're still faced with complex geopolitical risks and the build-up of government debt – and there's always the chance of further surprises. Diversification remains a golden rule in investing at all times.

Leverage multi-asset strategies and new avenues to achieve diversification

While yields have come down, we believe quality bonds still play a critical role as a good source of income and diversification. The mix of equities and bonds in the hands of professionals adds to the appeal of multi-asset strategies, which can adjust asset class allocation, and even bond durations in response to evolving market situations.

Finally, investors can achieve greater diversification by adding exposure to investments with lower correlations to equities and bonds. Sustainable energy and infrastructure stand out as interesting avenues for investors looking to optimize portfolio returns. As we navigate this fast-changing financial landscape, the enduring appeal of gold as a safe-haven asset also warrants attention.

Our 2024 HSBC Quality of Life Report underlined the connection between effective financial planning and our overall quality of life, and we've invited a panel of in-house experts to explore this topic from different perspectives.

We hope these insights will help you plan for the new year and your future. Best wishes for a successful investment journey in 2025.

Willem Sels
Global Chief Investment Officer,
HSBC Global Private Banking and Wealth

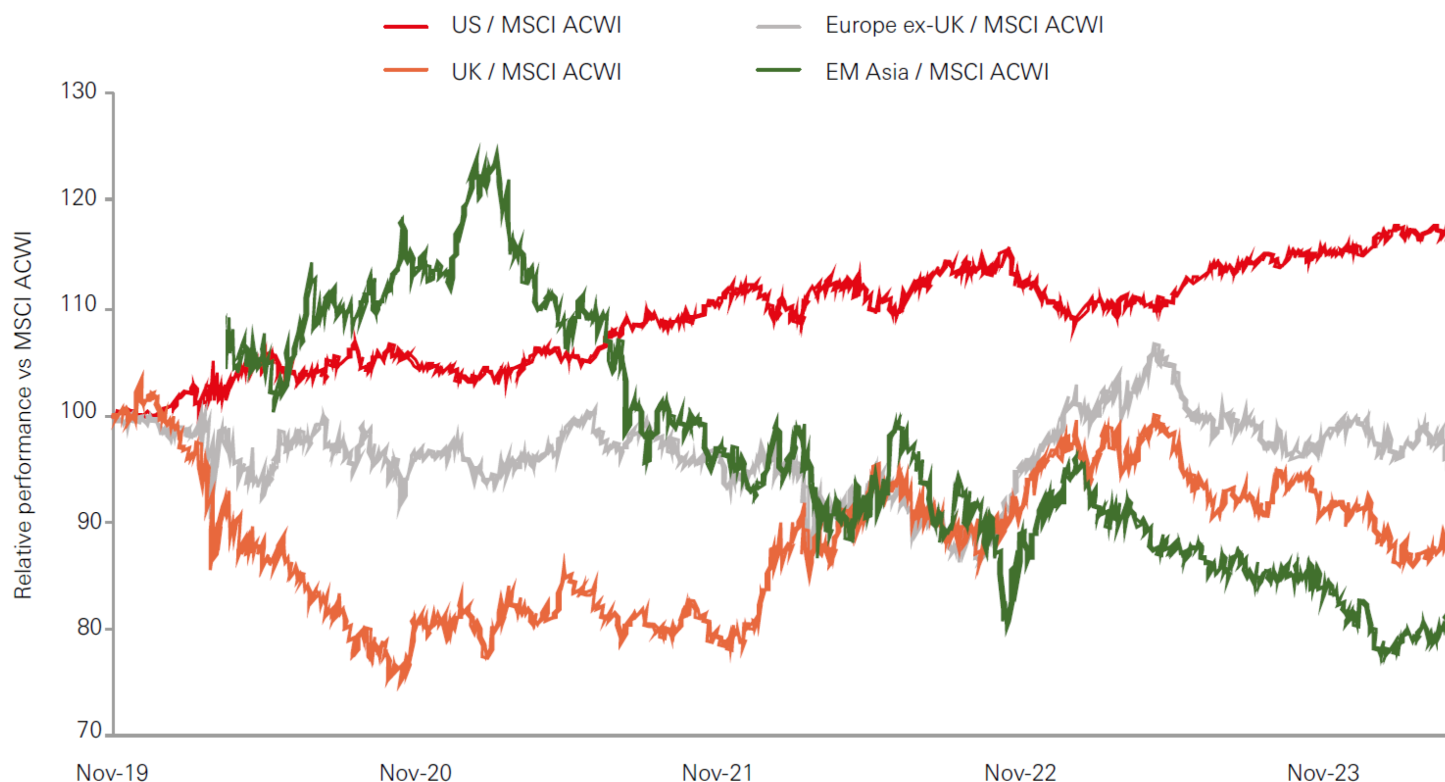
Key data to watch

Resilient US economic growth has alleviated recession fears. Lower inflation expectations allow most central banks to continue cutting rates

	GDP		Inflation	
	2024f	**2025f**	**2024f**	**2025f**
World	2.7	2.6	5.5	3.3
US	2.7	1.9	2.9	2.7
Eurozone	0.7	1.0	2.3	1.8
UK	0.9	1.7	2.5	2.3
Japan	0.1	1.3	2.5	2.2
Mainland China	4.9	4.5	0.5	1.1
India	7.0	6.6	4.5	4.3

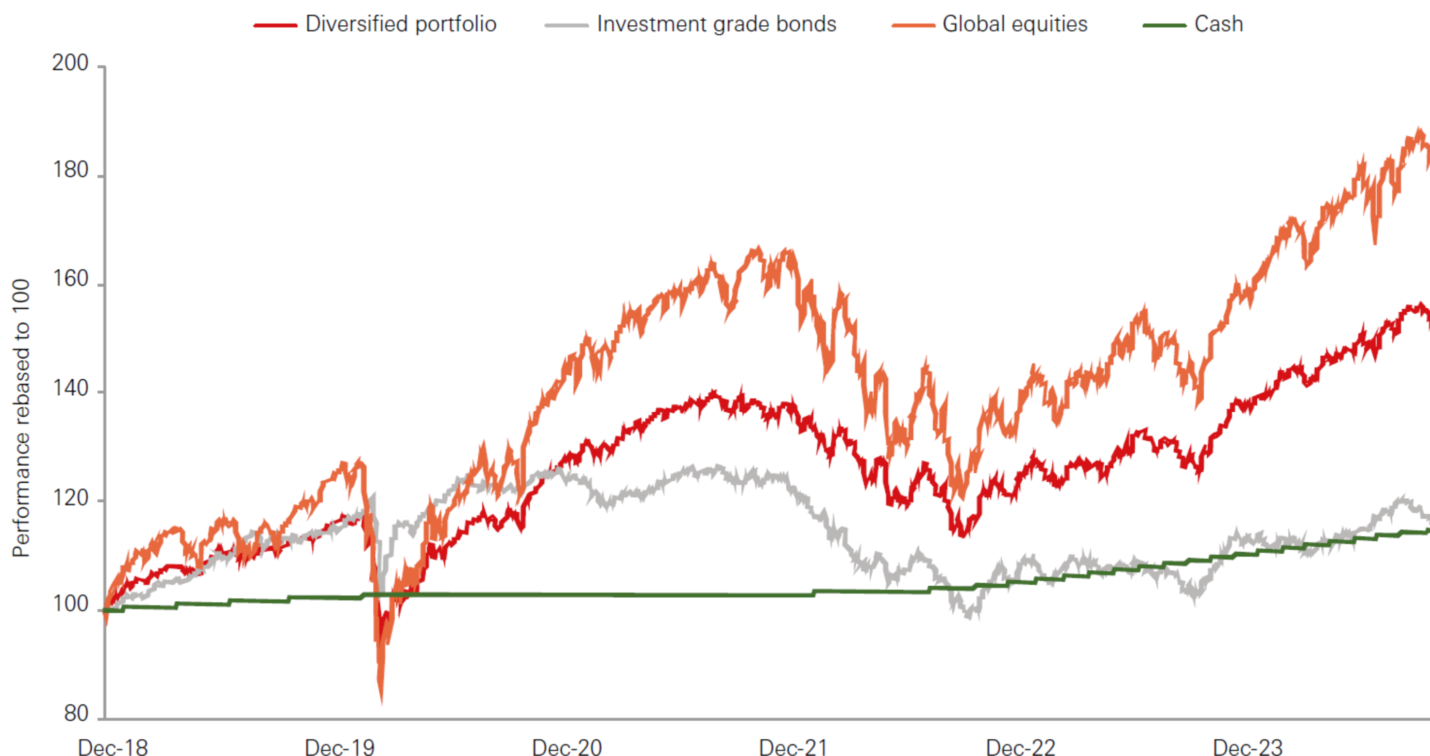
Source: HSBC Global Research as at 15 November 2024. Estimates and forecasts are subject to change. India inflation forecasts are fiscal year.

The US has continued to outperform global equities, but the UK and Asia are showing improvement



Source: Bloomberg, HSBC Global Private Banking and Wealth as at 15 November2024. Past performance is not a reliable indicator of future performance.

Diversified portfolio strategies have outperformed cash in 2024 and we think this will continue in 2025



Source: Diversified portfolio = performance of our moderate-risk strategic asset allocation, in USD terms. Bloomberg, HSBC Global Private Banking and Wealth as at 15 November 2024. Past performance is not a reliable indicator of future performance.

Global calendar

Key events – first half of 2025			
Jan 29	Federal Open Market Committee (FOMC) policy decision	Apr 17	ECB policy decision
Jan 30	European Central Bank (ECB) policy decision	May 7	FOMC policy decision
Feb 6	Bank of England (BoE) policy decision	May 8	BoE policy decision
Mar 6	ECB policy decision	Jun 5	ECB policy decision
Mar 19	FOMC policy decision	Jun 18	FOMC policy decision
Mar 20	BoE policy decision	Jun 19	BoE policy decision
Mar (date TBC)	The 15th National People’s Congress of the Chinese Communist Party	Jun (date TBC)	G7 summit

Four investment themes to help shape your portfolio

1 Expand geographically to unlock growth opportunities

The resilience of the US economy, underpinned by better-than-expected economic data, falling inflation, robust earnings growth and rate cuts, should continue to provide fertile ground for US equities to flourish in 2025. Moreover, US equities tend to perform well in the first six months after an election. Having said that, we see opportunities elsewhere too that shouldn't be missed.

We are increasingly positive in Asia. India's domestic-driven structural growth story remains attractive, and Japan is riding a reflationary tailwind. Meanwhile, ASEAN markets can benefit from supply chain diversification, with Singapore standing out for its attractive dividend yield and large REIT exposure. Corporate governance reforms in Japan, South Korea and China are set to boost dividend payouts and share buybacks. And the US Federal Reserve's easing cycle provides room for Asian central banks to follow suit, adding to the investment case for Asian equities.

Compared to the Eurozone, which faces the challenges of sluggish economic growth and potential US tariffs, the UK looks more compelling, supported by more favorable macro conditions, falling interest rates, improved real incomes, relative political stability and cheap valuations. The UK budget included measures to boost infrastructure investment and the energy transition.

- **We remain bullish on global equities, with US equities having our biggest equity allocation, and prefer the UK over the Eurozone.**
- **We like the diverse growth drivers in Asia, favoring India, Singapore and Japan. We remain neutral in mainland China and Hong Kong but see positive signs with more government support.**

2 Uncover sector winners of structural trends and policy priorities

Earnings momentum is broadening across sectors as input costs ease and rate cuts lower borrowing costs, while innovation is driving new sources of revenue and lifting productivity. In the US, the structural trends of the technology revolution, innovation in healthcare, re-onshoring and US industrialization remain firmly in place, supporting our earnings growth forecast of 15% for 2025 (vs 9% for 2024).

Several sector themes are playing loudly in most, if not all, regions. While technology continues to be a key driver for growth, the outperformance of the communications and healthcare sectors in the US and elsewhere is likely to continue. Utilities will also gain traction as investors look to high-dividend stocks as interest rates fall.

Policy priorities can help shed light on the sectors that will excel. The Republican clean sweep in the US elections will likely lead to tax cuts, which should stimulate corporate activity and household spending. The financials sector should also benefit from potential deregulation, while the renewed focus on industrials will help create jobs and strengthen national security.

- **While technology remains in favour, we broaden our sector view to include communications, financials, industrials and healthcare in the US.**
- **We're relatively more defensive in Europe, favouring technology, energy and healthcare. In Asia, we see opportunities in technology, communications, industrials, consumer staples and utilities.**

3 Strengthen portfolio stability with multi-asset strategies

Although we're more optimistic about equities, they shouldn't be the only play in your portfolio. The record year of elections is coming to an end, but market volatility isn't going away. And with interest rates coming down, there's a need to shift from cash to something more productive.

A well-diversified portfolio is always a good strategy for balancing opportunities and risks. Investors who prefer the allocation of equities and bonds to be managed professionally may consider multi-asset strategies, which provide geographical and asset class diversification and allow the fund manager to capture growth opportunities while managing downside and duration risks.

Bonds remain a good option from an income and diversification perspective. They're essential for people looking for a regular income stream to strengthen portfolio stability, and for those who are retired or near retirement, when income generation plays a more important role than capital growth. Although credit spreads have tightened, we expect the pace of Fed rate cuts to be gradual, meaning that we can still seize the opportunity to lock in current yields.

- **Multi-asset strategies provide geographical and asset class diversification, capturing growth opportunities while managing downside risks.**
- **We prefer quality bonds with medium maturities (5-7 years), where yields remain relatively more attractive**

4 Explore new avenues to achieve greater diversification

To look for a higher level of diversification and new sources of returns, investors can consider other investment options with relatively lower correlations to the conventional equity/bond mix.

Decarbonization, digitalization, re-onshoring and urbanization create a huge need for infrastructure investments by both private capital and governments. We see interesting opportunities in physical infrastructure, such as roads and transportation, as well as renewable energy, utilities and the development of "smart cities", where infrastructure spending on data centers and energy consumption will be significant.

Sustainability continues to gain momentum around the globe and across sectors, with industries expanding and developing new products to meet growing demand for sustainable alternatives. To meet the net-zero goals by 2050, an average of USD4.8 trillion annually in renewable energy is needed through 2030 globally[1]. Growth in renewable energy capacity surged by 50% in 2023[2], indicating a substantial shift towards lower carbon production and independence in energy sourcing.

As gold is traditionally seen as a safe-haven, there could also be continued demand for gold as a hedge against unexpected market uncertainties.

- **We see structural investment opportunities in sustainable energy, such as renewables, hydrogen, energy storage and carbon capture.**
- **Infrastructure offers relatively stable cash flows and dividends, while gold can be a diversifier to withstand market uncertainties.**

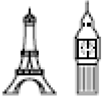
Sources: 1. Energy transition investment trends 2024 - BloombergNEF, January 2024; 2. Renewables 2023 – International Energy Agency, January 2024

Regional market outlook

Where should you invest your money?

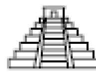
United States

The US elections were the focus in recent months and we believe the new government's policies will boost after-tax profits and households' after-tax income. The clarity should also cause companies to invest more, boost share buybacks and raise M&A activity. All of these are positives for US stocks, which already benefit from resilient earnings growth and interest rate cuts. As a result, the US stock market remains our main overweight, with technology, communications, financials, industrials and healthcare being our preferred sectors. Bonds should be supported by Fed cuts, but questions around the rising government deficit and the impact of tariffs on inflation could lead to some volatility. So, while we continue to lock in current attractive yields across the US bond market, we do this to generate a strong income stream as we don't expect rapid bond price gains.



The Eurozone and UK

Europe's economic growth is seeing some challenges and there's significant dispersion across the continent. Germany's manufacturing and export-led economy continues to face obstacles, while the UK is relatively better positioned. Continued rate cuts by the ECB and the Bank of England should help support bonds and stocks, while a stimulus-driven pickup in Chinese demand could help Europe's exporters. How the two wars on Europe's borders evolve will remain an important factor, too. Given the challenges posed by US tariffs and slow growth, we underweight the Eurozone, but maintain our overweight in the UK, where the fundamentals are more supportive.



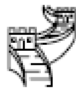
EM EMEA and EM Latin America

Central and Eastern Europe continue to face substantial headline risks related to geopolitics, as well as challenging fundamentals due to relatively weak growth in the EU and Russia. For the Middle East, the combination of military conflict and relatively low oil prices is a challenging mix.

Mexican assets and the peso could see some increased volatility as the new US administration reviews the use of tariffs and revisits the US-Mexico-Canada Agreement. In Brazil, we expect that renewed rate hikes may weigh on performance.

As a result, we maintain our underweight allocations to both regions, seeing better opportunities elsewhere.

Asia (ex-Japan)



Asia will be in the spotlight in 2025, with the potential for solid performance. Most Asian equity markets are trading at cheap valuation multiples compared to Western markets, and rate cuts by central banks around the world may help unlock that value. China's stimulus measures reduce the downside risk for the economy and can trigger significant upside if they manage to boost domestic demand and corporate earnings. The stimulus can help to offset the impact of increased US tariffs, especially for companies catering to local demand. In India, there's strong cyclical and structural support thanks to technology and manufacturing innovation, consumption growth and government stimulus. As a result, we're overweight on Indian and Singaporean stocks. In fixed income, we focus on quality bonds in the region and favor Indian local currency and Indonesian bonds.

Japan

Japan's economic growth and inflation pickup should remain positive in 2025. But inflation is already easing somewhat and this should allow the Bank of Japan to take a gradual approach to its interest rate hikes. We think this environment will provide the stability that companies crave and increase their earnings power, helping support the stock market. Companies also continue to focus on shareholder value creation by raising dividends and share buybacks, which is a further positive. Hence, we maintain our overweight on Japanese stocks. Bonds, however, are less attractive due to lower yields compared to other global markets.

Note:
The above comments reflects 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.

Navigating the phases of retirement planning: from growth to post-retirement

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Key takeaways

- Understanding lifecycle investing phases enables investors to allocate assets wisely based on their stage in life.
- Start retirement planning early while establishing clear savings goals to enhance overall financial security and future stability.
- Regularly review and adjust investment allocations and incorporate insurance solutions at each lifecycle phase to mange risk effectively and ensure financial security during retirement.

Retirement planning is one of the most crucial aspects of personal finance. The 2024 HSBC Quality of Life Report illustrates this point, revealing that 8 in 10 individuals are aware of the capital they require to fund their retirement. However, 4 in 10 admit they're off track in achieving these plans. In a world where life expectancy is rising, the necessity for adequate financial security during retirement becomes increasingly important.

The financial implications of a lengthy retirement necessitate a well-structured investment strategy. Public pensions and occupational plans alone often don't provide for a comfortable retirement, highlighting the importance of active investment to accommodate extended periods of financial dependency. Effective investing for retirement entails developing an investment portfolio that aligns with one's expected retirement lifestyle, considering factors such as risk tolerance and time horizons.

Proactive investing for retirement can make a significant difference. We asked our experts for insights that can help individuals build a resilient financial foundation that withstands the test of time.

Understanding lifecycle investing and financial planning

Willem: Lifecycle investing recognizes that individuals go through distinct phases: growth, pre-retirement and post-retirement. The transition from one phase to another is often gradual, as individuals advance from entry-level roles to senior positions, gradually reducing their working hours and relying on their past savings to generate additional income before eventually fully retiring.

It's essential to start thinking about retirement planning early on. Even if you can only put away small amounts early in your career, those small investments can compound to significant sums by the time you retire. The value of cash will erode over the long term and investing across a variety of asset classes delivers better returns than holding cash. Regular investing helps smooth out the effect and fear of market movements. In addition, considering alternative investments in a multi-asset portfolio can diversify risk and enhance potential returns. By embracing these strategies, individuals can navigate the complexities of retirement planning confidently and work towards achieving a secure financial future for the long term.

Willem: Jenny, how does having a robust financial plan support retirement planning?

Jenny: Incorporating retirement planning into your investment strategy is essential for achieving financial security in later life. A goals-based investing approach can further personalize retirement planning. This method encourages investors to set clear objectives related to their aspirations for retirement.

Building a strategic financial plan for retirement empowers you to establish a better understanding of your current financial situation and desired retirement lifestyle, take stock of your existing retirement portfolio, and understand your risk appetite to decide on the products to include in your investment strategy.

Regular monitoring and portfolio adjustment based on market conditions and personal circumstances can ensure you stay aligned with your goals.

Exploring investment choices by lifecycle phases

Jenny: Muna, which key investment opportunities should we explore to make the most of each phase?

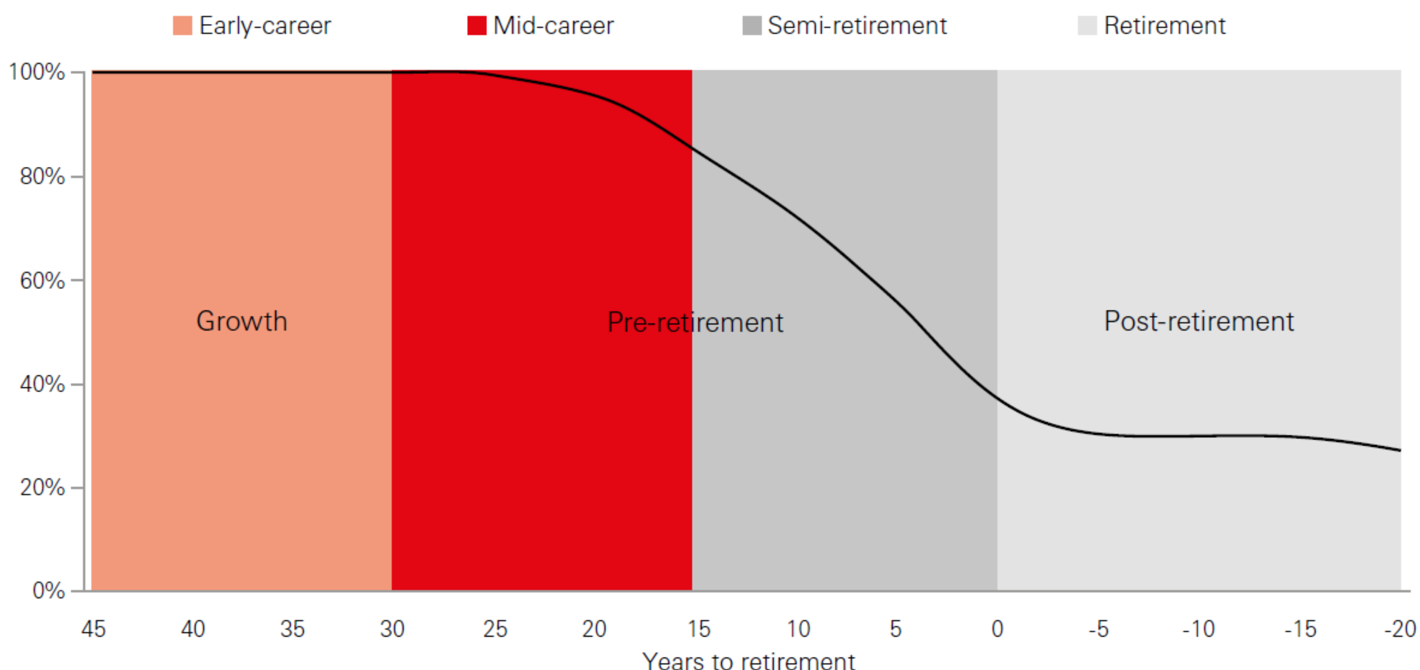
Muna: The essence of this approach is ensuring the appropriate level of risk at each stage of the investment lifecycle.

1. Growth Phase: In the early-career growth phase, the focus should be on aggressive growth by investing excess savings in growth assets. Young investors should make sure that their pot grows as quickly as possible to maximise their portfolio's growth potential. As long-term equity returns generally outperform fixed income, a substantial allocation to equities is advisable. Investing in accumulation share classes (mutual funds that reinvest income received), equity funds, and multi-asset funds with significant equity exposure allows for substantial wealth building. Individuals early in their careers often have the capacity to pursue higher-risk investments. Given that these investors are likely to be in gainful employment, their need for income should be low. They should avoid income-producing funds and instead focus on saving and growth to achieve their life goals – from buying property to saving for retirement.

2. Pre-retirement Phase: As individuals approach retirement, it's important to begin de-risking the investment portfolio by shifting towards safer assets, and prioritizing stability and risk management to protect accumulated wealth. This stage requires a balance that melds growth with lower volatility. A diversified portfolio that includes bonds and other safer assets becomes crucial. It's important to evaluate one's retirement income needs at this stage to adjust asset allocations accordingly.

3. Post-retirement Phase: Once in the post-retirement phase, the emphasis should be on income generation through lower-risk, income-producing investments that support consistent cash flow and manage longevity risks. Income-generating assets with lower risk, such as diversified bond funds or specific post-retirement fund products, should provide consistent cash flows to support spending needs while avoiding excessive depletion of capital. These funds have the advantage that they can be readily converted to cash when required. They can also be passed on through legacy, unlike an annuity.

Equity allocation during the investment lifecycle



Source: HSBC Global Private Banking and Wealth, September 2024. For illustration only.

Exploring insurance choices by lifecycle phases

Muna: Winnie, how can insurance solutions support different objectives at different stages of life?

Winnie: Insurance is crucial to ensuring financial security and peace of mind throughout various life stages. It serves as a strategic tool to manage longevity risk and cope with future medical expenses and inevitable inflation, while also offering potential long-term wealth appreciation to support a comfortable retirement.

A common insurance solution for retirement is an annuity, which provides stability and predictability through a steady income stream. Young individuals at the growth phase can begin saving for retirement by investing idle cash in deferred annuities on a regular basis. Over time, the insurance policy value will grow until the designated day when they start receiving income. For individuals transitioning into post-retirement, converting a portion of their retirement savings into immediate annuities allows them to enjoy consistent long-term payouts for a worry-free retirement.

As wealth accumulates in the growth stage of the lifecycle, adding health insurance with comprehensive hospitalisation, critical illness coverage or outpatient care is advisable as it can cover medical expenses and reduce the necessity of dipping into your savings. Purchasing health insurance early enables one to lock in lower premiums and ensure sufficient medical protection during the retirement stage.

Through careful planning and the strategic use of insurance solutions, individuals can build a robust financial plan that aligns with their lifestyle goals. This approach mitigates uncertainties and helps to ensure a secure and fulfilling retirement journey.

A personal and dynamic approach

In conclusion, the integration of retirement planning into one's investment strategy is vital for achieving long-term financial stability. By recognizing the three distinct phases of the investment lifecycle — growth, pre-retirement, and post-retirement — individuals can better align their investments with their evolving needs.

The importance of starting early, setting clear savings goals, and using employer-sponsored plans cannot be overstated. As aging populations put pressure on pension systems, and individual retirement savings become increasingly important, adapting investment strategies accordingly will lead to more effective retirement outcomes.

Retirement shouldn't be viewed as an endpoint, but as a significant life stage requiring thoughtful planning and strategic investment. Effective retirement planning empowers individuals to navigate their financial landscape confidently as they look forward to a secure and fulfilling retirement.

Glossary

Alternative investments: a broad term referring to investments other than traditional cash and bonds. These 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 investing 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 to increase the money supply and encourage lending and investment.

Strategic asset allocation: a practice of maintaining a mix of asset classes which should meet an investor’s risk and return objectives over a long-term horizon and isn’t intended 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).

Lucia Ku
Global Head of Wealth Insights, HSBC Wealth and Personal Banking

Lucia leads the Wealth Insights function with a focus on the development of its content strategy and delivery of key content initiatives to drive Insights consumption across different channels. She is also responsible for leveraging the firm's research capabilities to enhance our Insights offering to wealth clients in Asia and globally. Previously, she worked at a number of banks and asset managers, including HSBC Asset Management.

Ivy Suen
Senior Wealth Insights Manager, HSBC Wealth and Personal Banking

Ivy leads the creation of market insights, thought leadership initiatives and the delivery of an ESG-focused content strategy as part of HSBC's core investment philosophy. Previously, she launched initiatives for HSBC Premier and International in Hong Kong, connecting clients with tailored multi-channel services and initiatives for their portfolio growth.

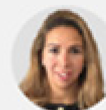
Guest contributors

Jenny Wang
Global & Asia Head of Personal and Premier Wealth Solutions, HSBC Wealth and Personal Banking

Jenny leads the development of retail wealth strategy at HSBC, focusing on financial planning, product strategy and omni-channel solutions. Since joining HSBC in 2001, she has held key leadership roles in distribution, proposition, products, analytics and marketing in retail banking and wealth management. Jenny holds an Executive MBA from China Europe International Business School and is a Chartered Financial Analyst.

Winnie Ching
Global Chief Product and In-force Officer, HSBC Global Insurance

Winnie leads product strategy, proposition innovation and portfolio monitoring globally at HSBC Life, where she is chair of the Global Insurance Product Committee and a member of the Global Insurance Executive Committee. She delivers customer-centric insurance solutions aligned with the bank's wealth management approach and with HSBC Life's sustainability agenda. Winnie brings over 20 years of experience in product development and risk management and holds a BSc in Actuarial Science from the London School of Economics and Political Science (LSE).



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Muna oversees fund research, selection and distribution in the Global Manager Selection team at HSBC, including sustainable funds. Before joining HSBC in 2018, she spent 13 years at Morningstar, serving as Director of Manager Research Ratings for EMEA and Asia. Muna also launched the Morningstar Sustainability Rating and contributed to ESG dialogue within the industry. Muna holds a BSc in Economics with First Class Honours from the School of Oriental and African Studies, University of London.

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Sustainable investing is an evolving area and new regulatory frameworks are being developed which will affect how sustainable investments can be categorized or labelled. An investment which is considered to fulfil sustainable criteria today may not meet those criteria at some point in the future.