2025 Mid-year outlook: New rules

June 2025
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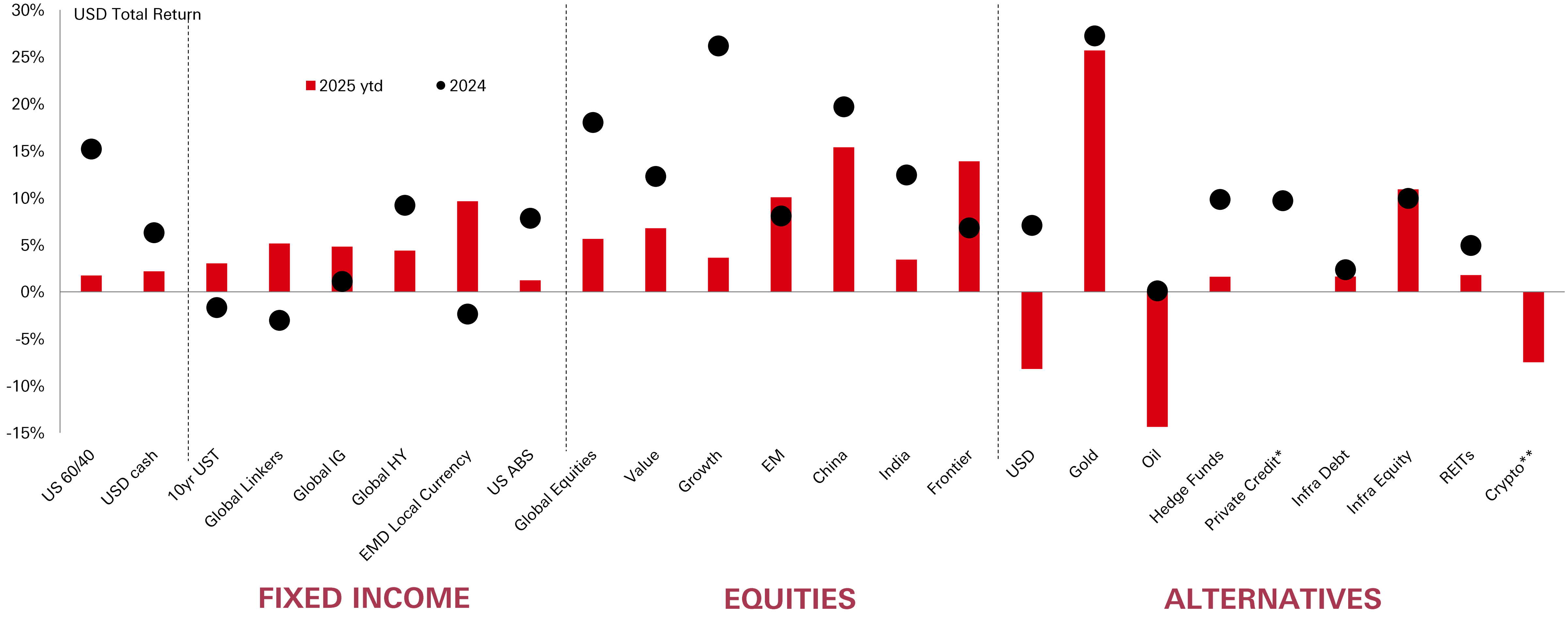
Market performance

How asset classes have been faring



Source: HSBC Asset Management, Bloomberg, 30 May 2025. **This information shouldn't be considered as a recommendation to buy or sell specific investments, country or sector mentioned. Any forecast, projection or target where provided is indicative only and not guaranteed in any way.** Asset class performance is represented by different indices. US 60/40: Bloomberg EQ:FI 60:40 Index, 10yr UST: ICE BofA 10yr US Treasury Index, Global Linkers: ICE BofA Global Inflation-Linked Government Index, Global IG: Bloomberg Barclays Global IG Total Return Index unhedged. Global High Yield Index: ICE BoFa US High Yield Index, EMD local currency :JP Morgan EMBI Global Total Return local currency. Global Equities: MSCI ACWI Net Total Return USD Index. Value: MSCI Value Index, Growth: MSCI Growth Index, Global Emerging Market Equities: MSCI Emerging Market Net Total Return USD Index. China: MSCI China Index, India: MSCI India Index. Frontier: MSCI Frontier Markets Total Return Index , Alternatives: USD: DXY Index, Gold Spot $/OZ, Oil: WTI crude oil, Hedge funds: Credit Suisse Hedge Fund Index, *Private Credit: Bloomberg Debt Private Equity Index (up to 1Q24), Infra Debt: iBoxx USD Infrastructure Total Return Index, Infra Equity: Dow Jones Brookfields Global Infrastructure Total Return Index, REITS Real Estate: FTSE EPRA/NAREIT Global Index TR USD. **Crypto: Bloomberg Galaxy Crypto Index. Index returns assume reinvestment of all distributions and do not reflect fees or expenses. You cannot invest directly in an index.

NEW RULES

G-zero economics

Old idea of US hegemony is replaced with a new G-zero, where no one economic power is leading the global order

Global to local

Country correlations are likely to fall which creates a strong argument for EM granularity

Volatile market narratives

This becomes a feature of the current system, not a bug

End of exceptionalism

Asset classes that have been overlooked by investors during the era of US exceptionalism come into focus

Safety substitutes

Global fixed income, selective high qualitive credits, private credit

Source: HSBC Asset Management, June 2025. The views expressed above were held at the time of preparation and are subject to change without notice.

Global scenario

Summary of inflation, growth, policy scenario across main economies

		US	Eurozone	UK	Japan	China	India
Growth	2025	1.4%	0.8%	1.0%	0.8%	4.5%	6.3%
	2026	1.5%	1.1%	1.1%	0.8%	4.1%	6.5%
Inflation	2025	2.8%	2.1%	3.0%	2.8%	0.3%	3.9%
	2026	2.7%	1.9%	2.3%	1.8%	1.0%	4.3%
Policy	12m ahead policy rate (HSBC AM)	**3.50-4.00%**	**1.25-1.75%**	**3.25-3.75%**	**0.75-1.00%**	**1.1-1.4% ***	**5.25-5.50%**
	2025 Fiscal impulse	**Mild drag**	**Neutral**	**Drag**	**Neutral**	**Moderate boost**	**Neutral**

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Note: * 7-day reverse repo rate

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Economic power is shifting

The world in 2075…

Ranking (USD)	1980	2000	CURRENT	2050	2075
1	US	US	US	China	China
2	Japan	Japan	China	US	India
3	Germany	Germany	Japan	India	US
4	France	UK	Germany	Indonesia	Indonesia
5	UK	France	India	Germany	Nigeria
6	Italy	China	UK	Japan	Pakistan
7	China	Italy	France	UK	Egypt
8	Canada	Canada	Canada	Brazil	Brazil
9	Argentina	Mexico	Russia	France	Germany
10	Spain	Brazil	Italy	Russia	UK
11	Mexico	Spain	Brazil	Mexico	Mexico
12	Netherlands	Korea	Korea	Egypt	Japan
13	India	India	Australia	Saudi Arabia	Russia
14	Saudi Arabia	Netherlands	Mexico	Canada	Philippines
15	Australia	Australia	Spain	Nigeria	France

Past performance does not predict future returns.
Source: HSBC Asset Management, Daly and Gedminas & CEPR January 2023.

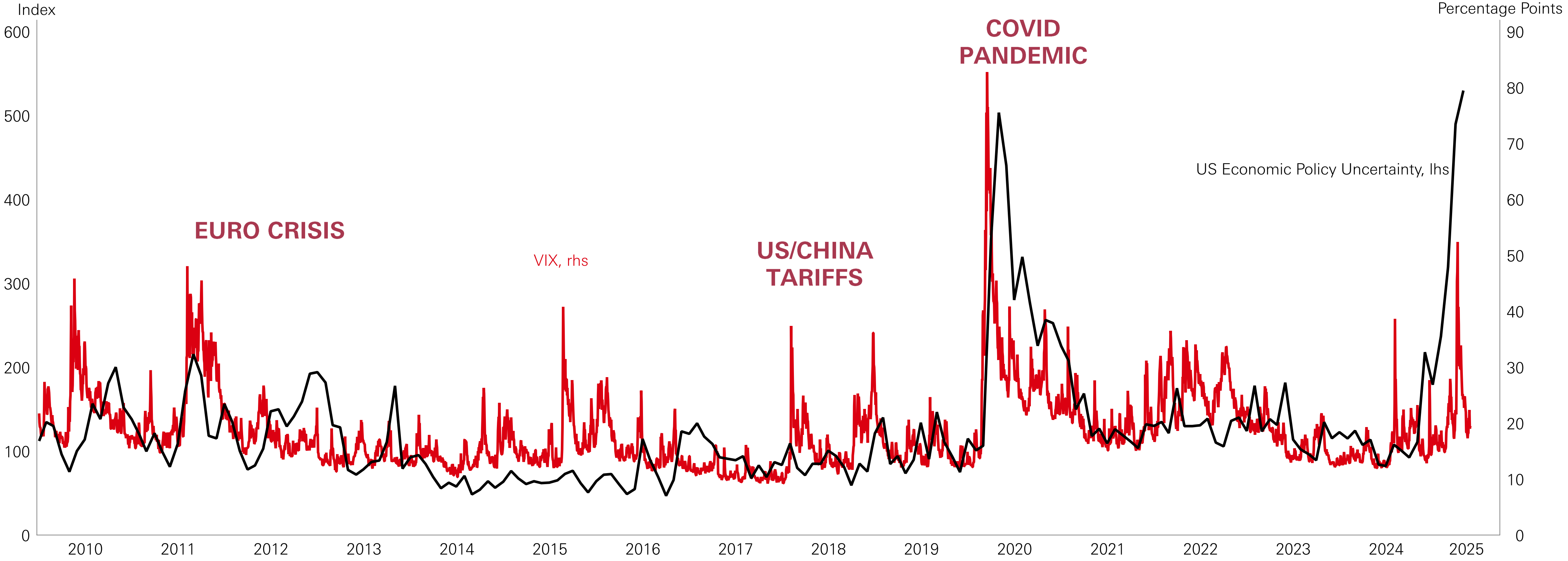
Multipolar world

The information provided is for illustrative purpose only.
Source: HSBC Asset Management, June 2025. The Global South refers to the countries in the United Nations G77 which is a coalition of developing countries and does not include China. GCC refers to the Gulf Cooperation Council and includes Bahrain, Kuwait, Qatar, Saudi Arabia and the UAE.

Investment markets are "spinning around"

Structurally higher uncertainty implies more volatile markets

US policy uncertainty index and VIX volatility



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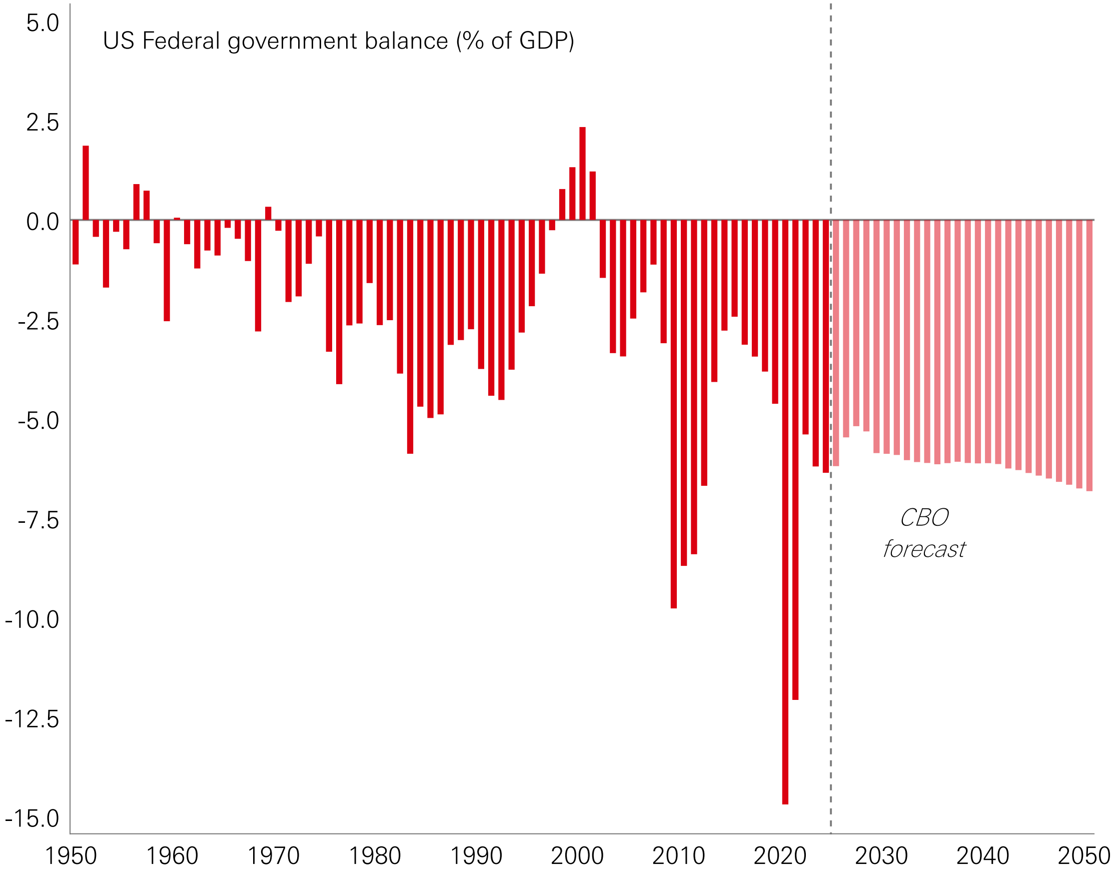
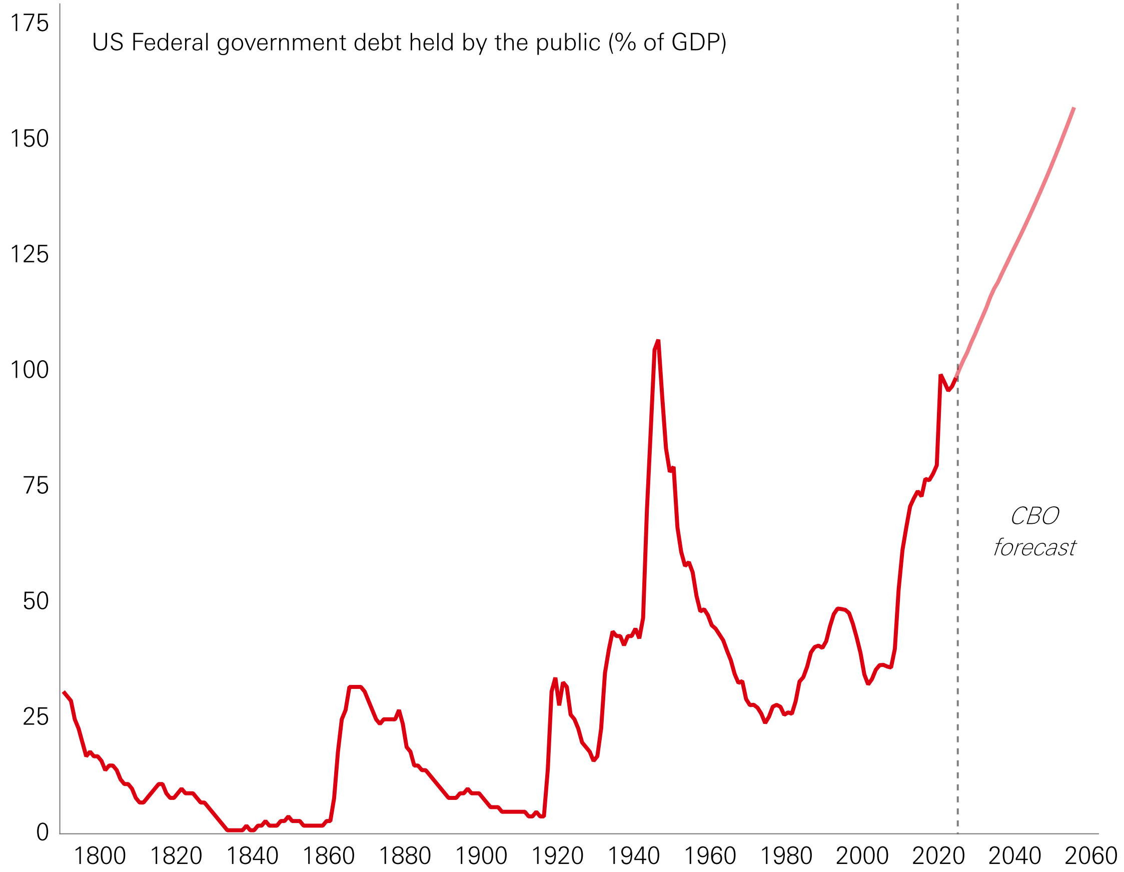
US fiscal crisis?

Demographics, populism mean "deficits forever"

Federal balance on long-run deteriorating trend



US debt ratio, and CBO projections



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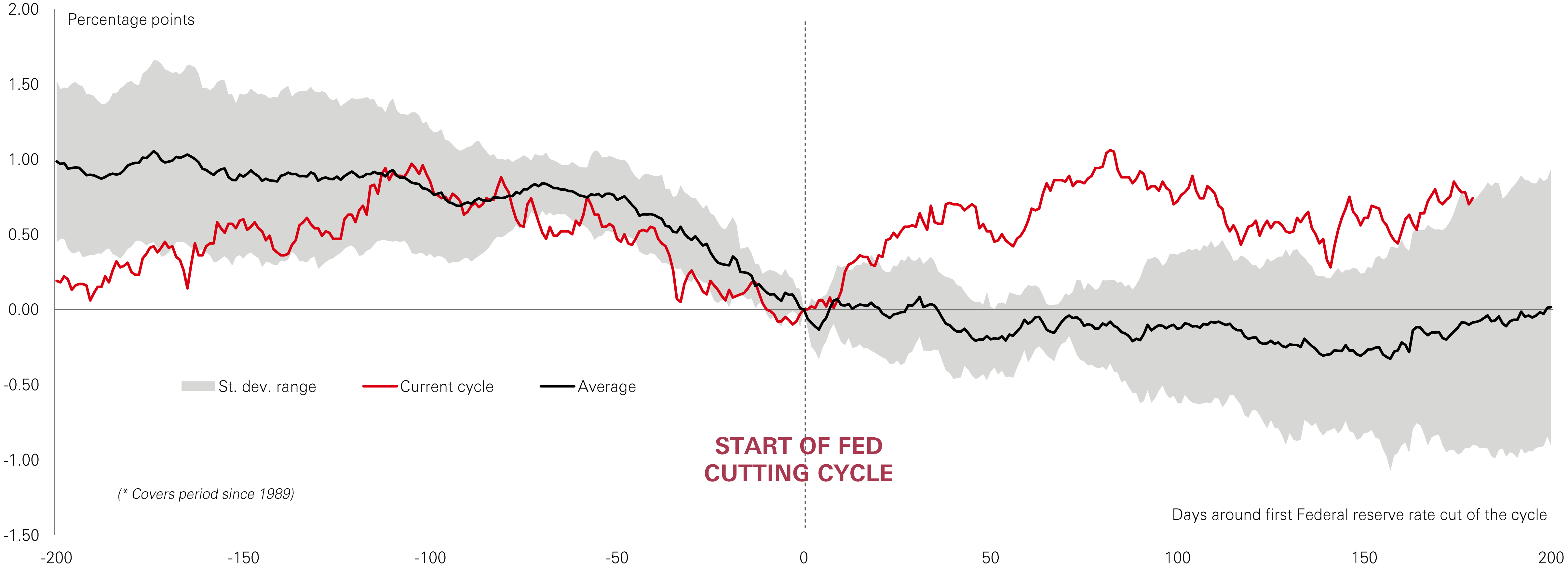
Reverse conundrum in bond markets

Long bond yields usually fall after rate cuts

Difference in 10-year Treasury yield from time of first Fed cut



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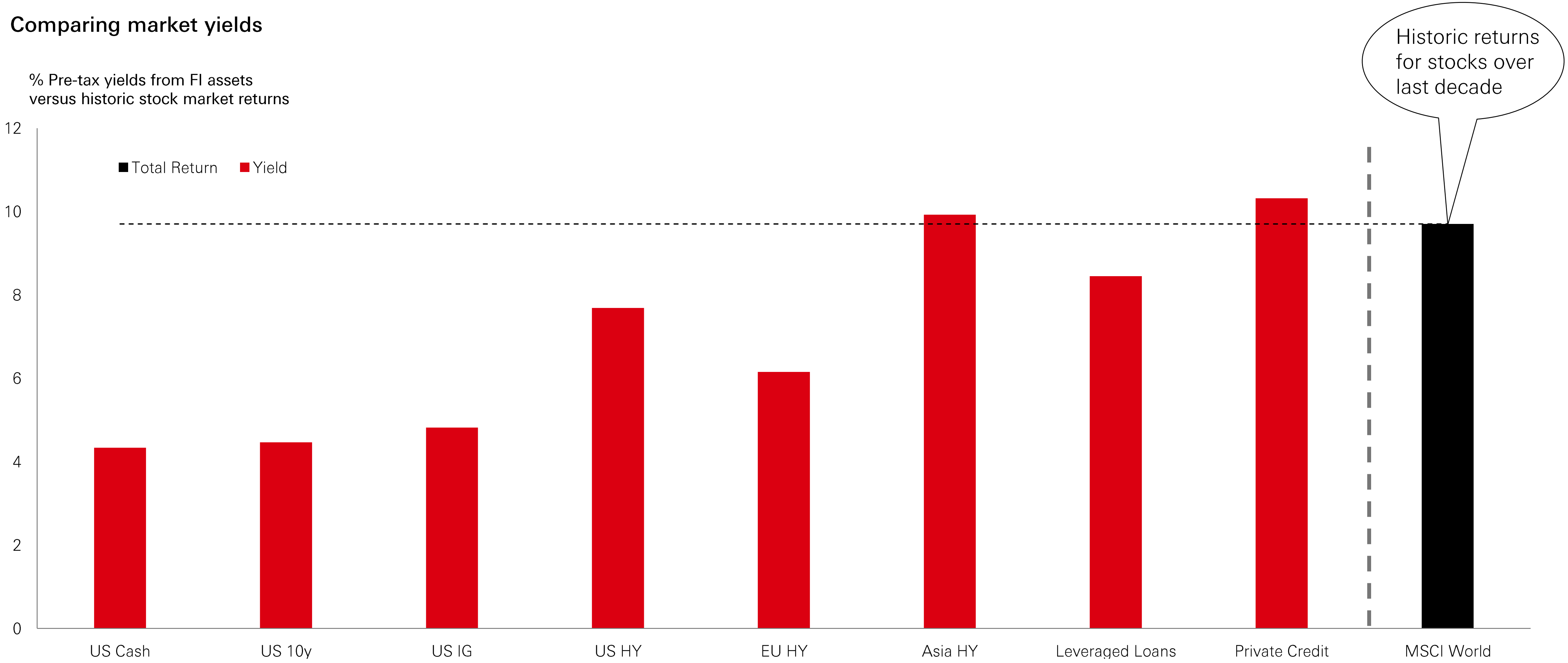
Selective opportunities in credits

Asia credits and private credits stand out for "all in yields"

Comparing market yields



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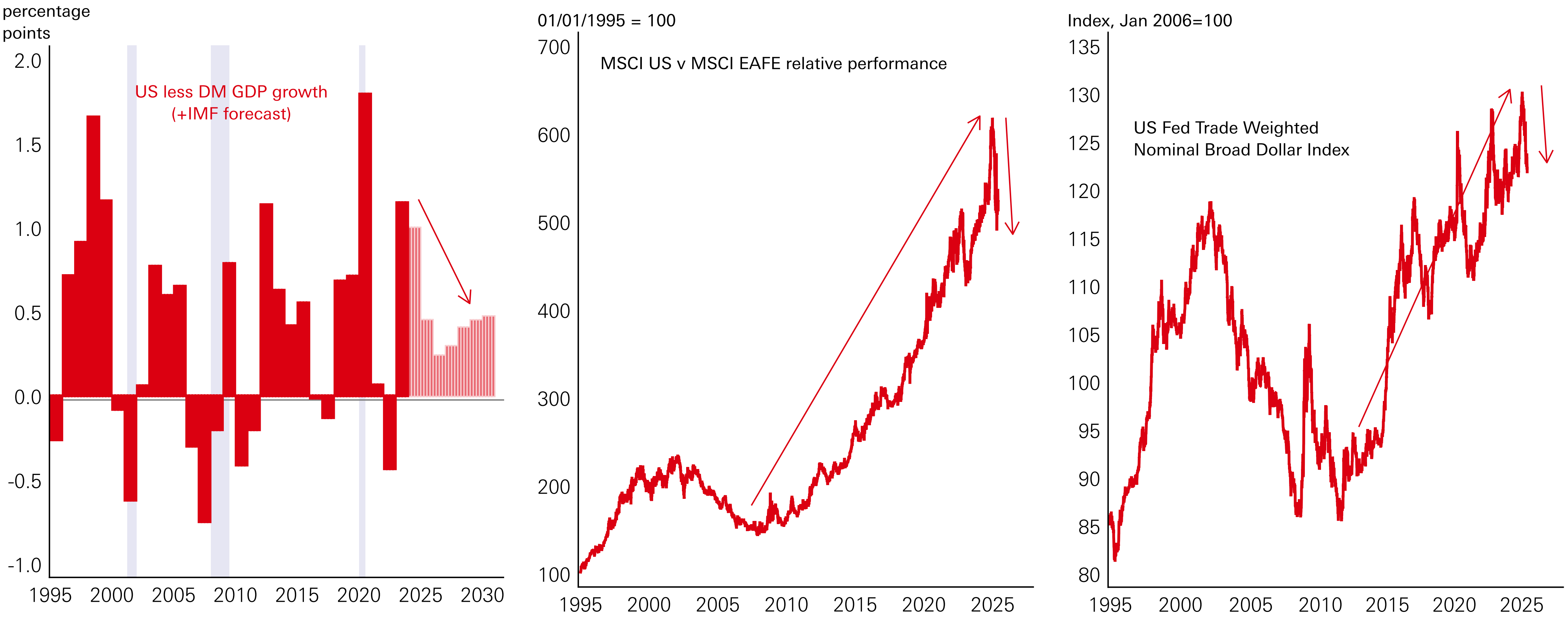
Source: Macrobond, Bloomberg, HSBC Asset Management, June 2025

10yr UST: Bloomberg US Generic Govt 10 Yr Index, US IG: Bloomberg US Corporate Investment Grade Index. US High Yield Index: Bloomberg US Corporate High Yield Index, EU HY: Bloomberg Pan-European High Yield Index, Asia HY: Bloomberg Asia USD High Yield Bond Index, Leveraged loans: S&P UBS Leveraged Loan Index, Global Equities: MSCI ACWI Net Total Return USD Index. Private Credit: Cliffwater Direct Lending Index (31/03/2025).

The end of exceptionalism

The US economy, stock market, and dollar

US GDP, stocks and the dollar



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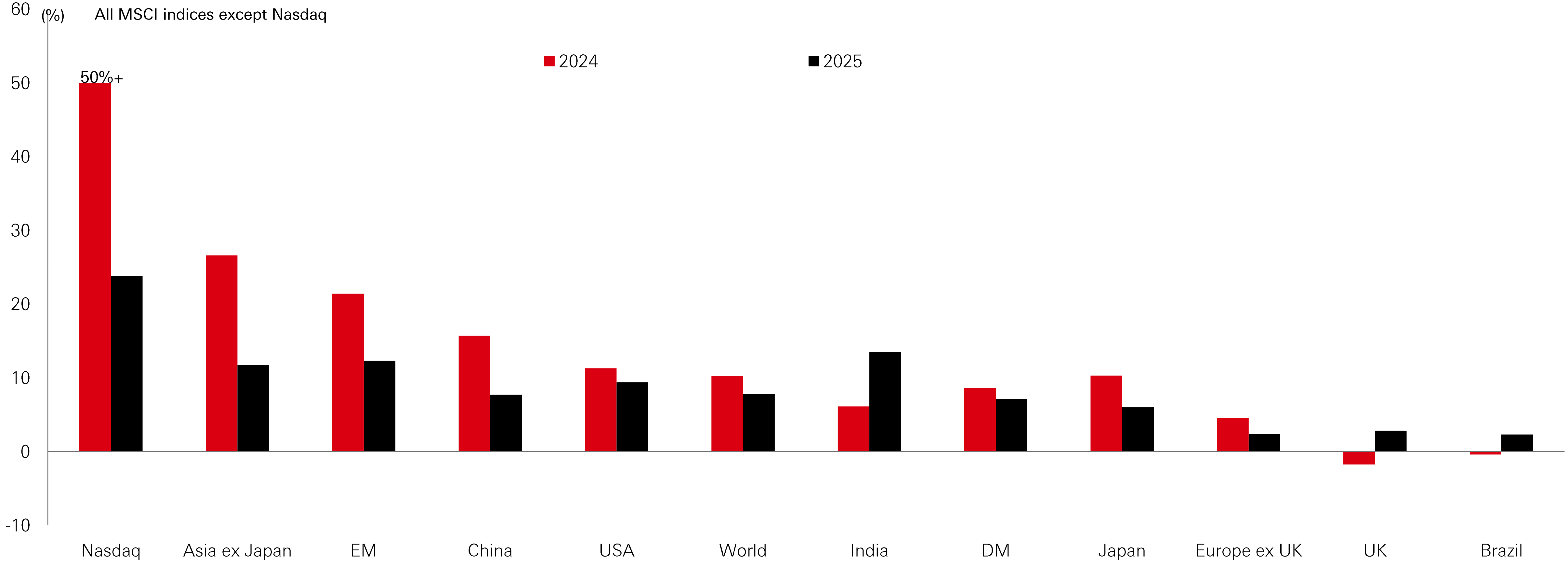
The end of exceptionalism

Profits growth across major stock markets

Global EPS growth in 2024 and 2025



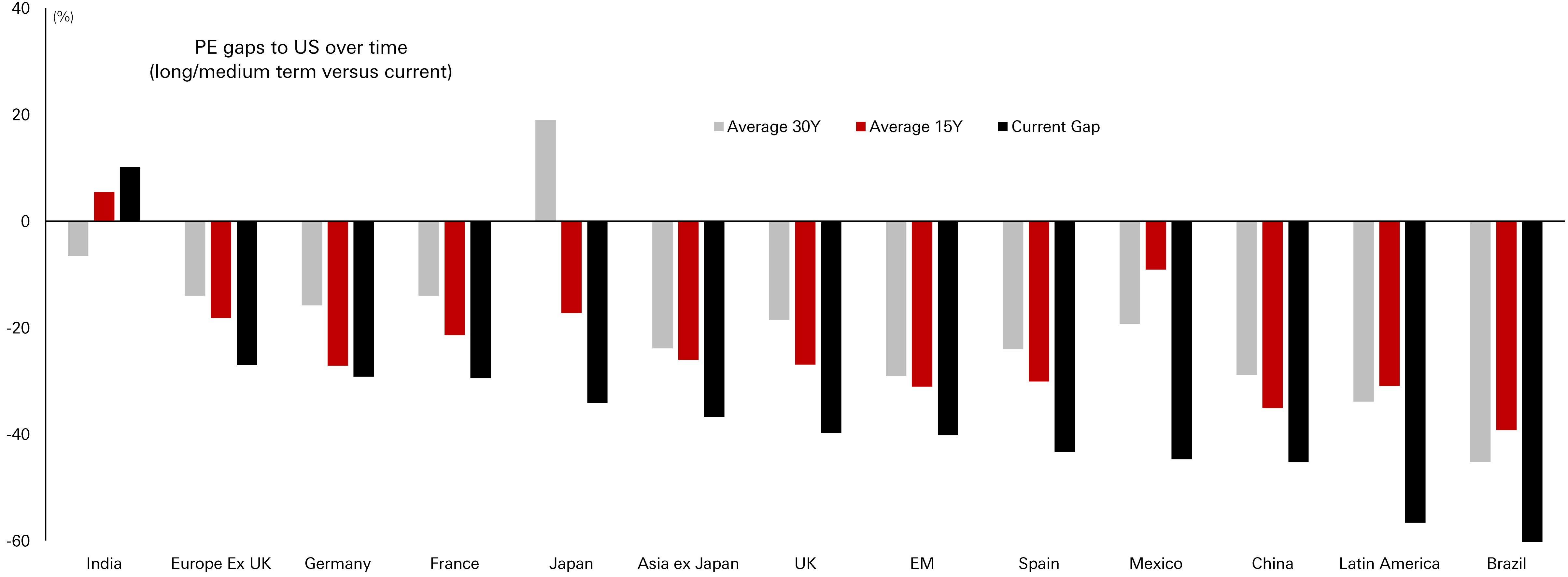
Past performance does not predict future returns.

Note: Nasdaq IBES profit data for 2024e (only) is very volatile, so 50%+ used. Source Refinitiv, HSBC Asset Management, Refinitiv, IBES, June2025. 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.

The end of exceptionalism

Valuation gaps for World ex US stocks remain wide

World PE gaps versus the US



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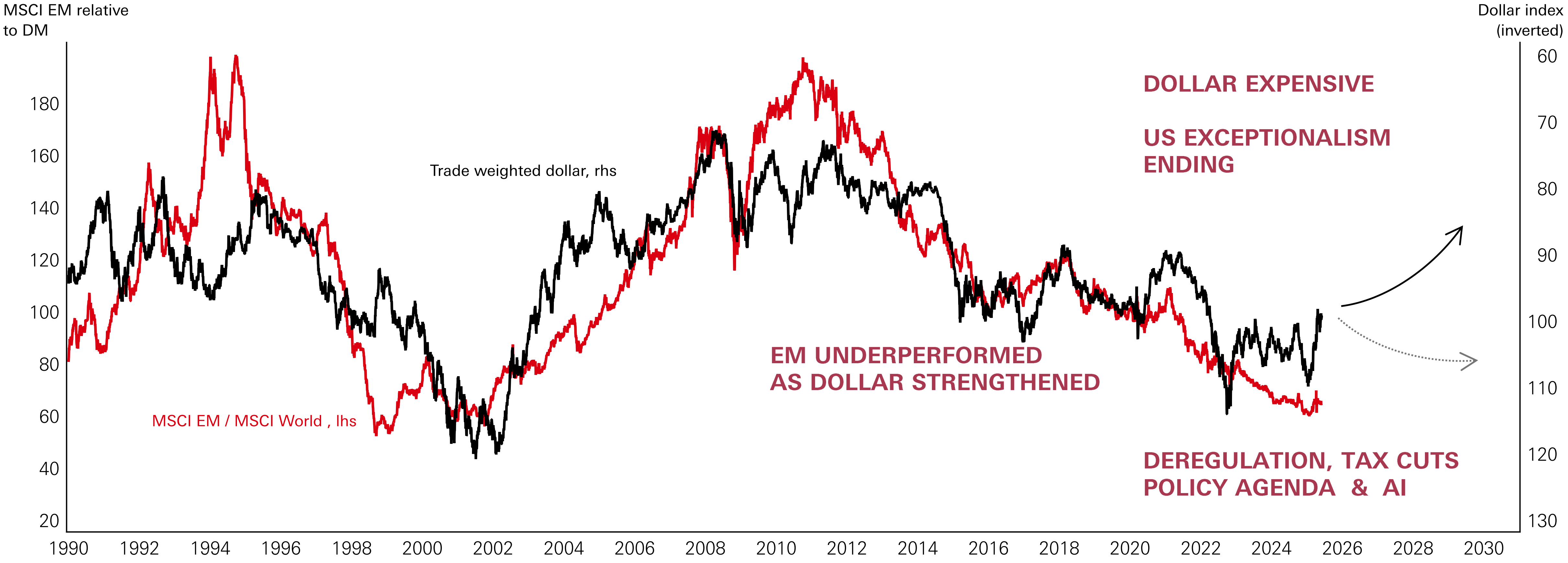
Dollar scenario is key

Weaker dollar as a catalyst for emerging markets

Weaker dollar should help EMs to outperform



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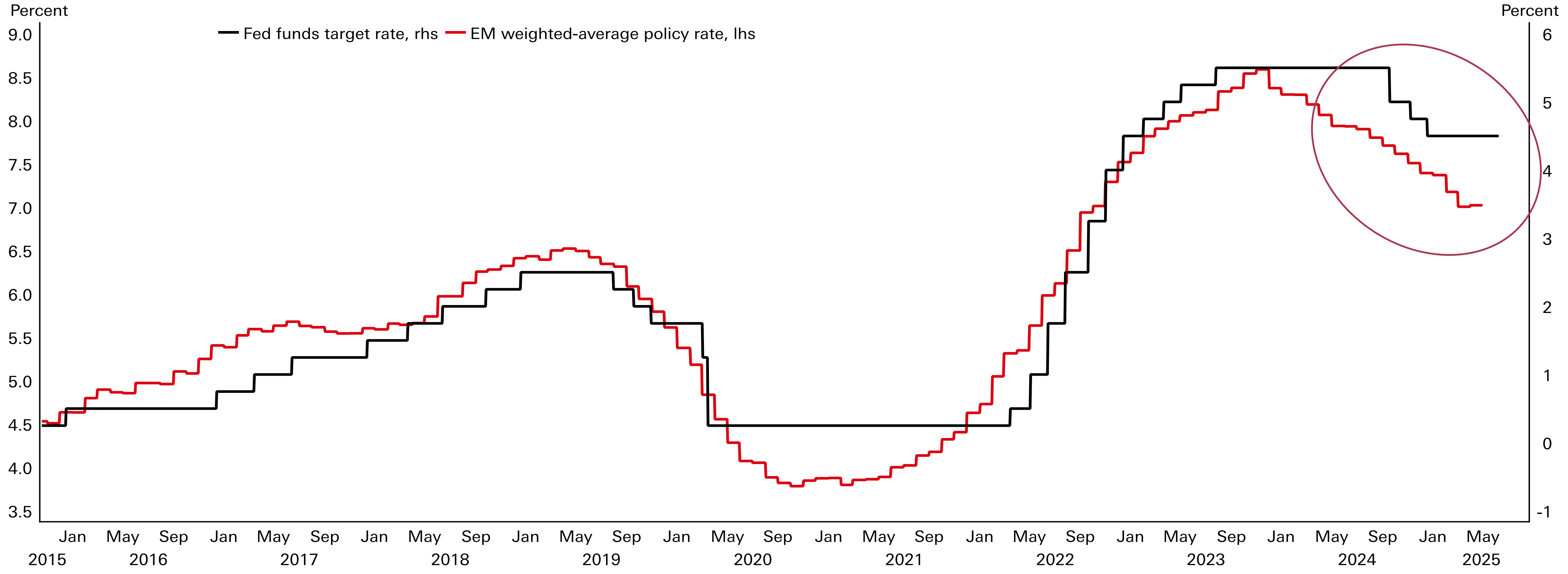
New policy space for emerging markets

EMs and Frontiers easing, while Fed on hold

Average EM policy rate versus the Fed funds target rate

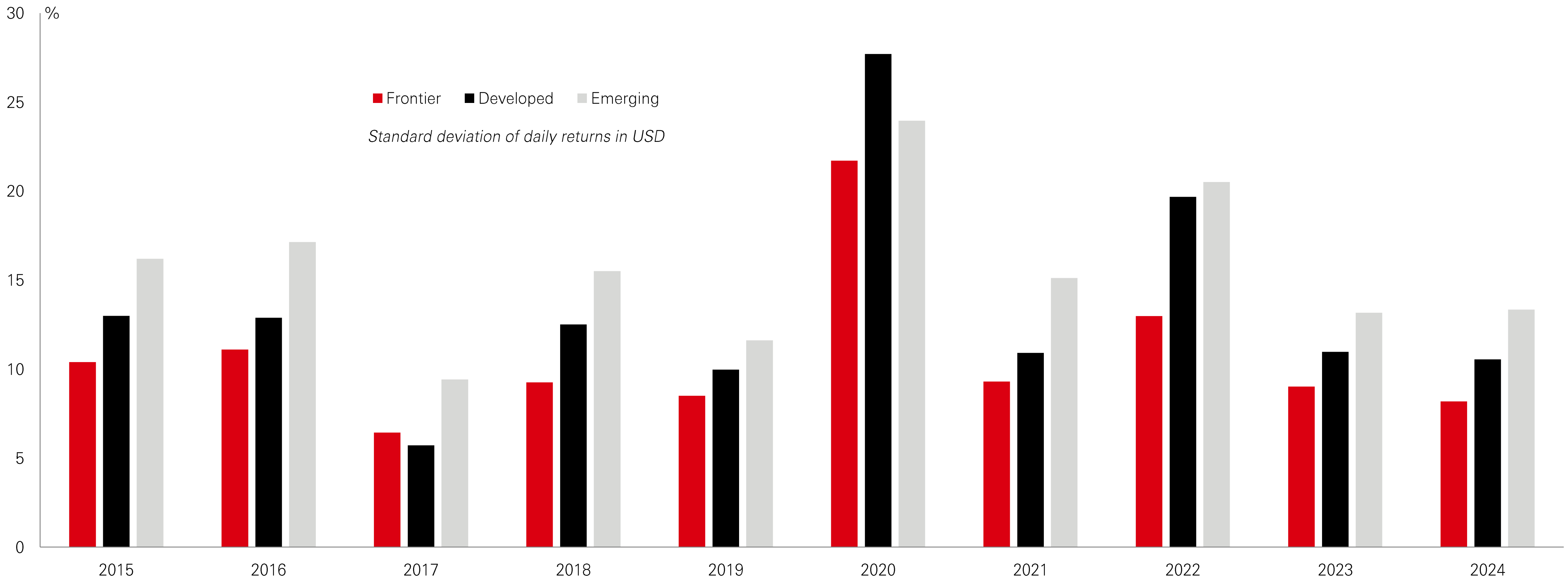


Past performance is not a reliable indicator of future performance.
Source: Macrobond, HSBC Asset Management, June 2025

Frontier markets have been less volatile

Reflets local effects, and investor ownership

Stock market volatility in key regions



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Appendix

Macro scenarios

	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, June 2025.

Market scenarios

	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 6500?) 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.

Source: HSBC Asset Management, June 2025.

House views summary

Macro Scenario

Macro Factor	House view
Growth	↔/▲
Rates	↔/▲
EM Factor	▲

Policy Rates	12m ahead
US	3.50-4.00%
Eurozone	1.25-1.75%
UK	3.25-3.75%
Japan	0.75-1.00%
China	1.10-1.40%
India	5.50-5.75%

Government Bonds

Asset Class	House view
Global Bonds	↔/▲
US 2yr	↔
US 10yr	↔
German 2yr	▲
German 10yr	▲
France/Germany	↔
Italy/Germany	↔
UK 2yr	▲
UK 10yr	▲
Pan-Asia	▲
Japan	▼
Global ILBs	↔/▲
EM (local currency)	▲
China	↔/▲
India	▲
Indonesia	▲
Mexico	▲

Corporate Bonds

Asset Class	House view
Global Investment Grade (IG)	↔/▲
USD IG	↔/▲
EUR IG	↔/▲
GBP IG	↔/▲
Asia IG	↔/▲
Global High-Yield	↔/▼
US High-Yield	▼
Europe High-Yield	▼
Asia High-Yield	↔/▲
Other Credits	▲
EM hard currency	▲
Securitised Credit	▲

Equities

Asset Class	House view
Global Equity	↔/▲
US	↔
Eurozone	↔/▲
UK	↔
Japan	↔
GEM Equity	▲
Asia ex Japan	▲
Hong Kong	▲
China	▲
India	▲
LatAm	▼
Frontier	▲
Equity Factors	↓
Small cap	▲
Value	▲
Growth	↔
Cyclicals	▼
Defensives	▲
Quality	▲

FX & Alternatives

Asset Class	House view
US Dollar (DXY)	▼
EUR	▲
GBP	↔/▲
JPY	▲
CNY	↔/▲
EM FX	↔/▲
Asia FX (ADXY)	↔/▲
Commodities	↔
Gold	▲
Oil	▼
Copper	↔
Alternatives	↓
Hedge Funds	▲▲
Real Assets	▲▲
Private Credit	▲▲
Private Equity	↔
Crypto Assets	▼▼

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

Source: HSBC Asset Management, June 2025. House view represents a >12-month investment view across major asset classes in our portfolios. The views expressed above were held at the time of preparation and are subject to change without notice.

Summary

Macro Outlook

- **Our baseline scenario** is that tariffs settle close to current levels. US growth drops below trend while inflation rises
- But **policy uncertainty** remains high, creating the risk of a sharper downturn and elevated cross asset market volatility
- In **China**, policy support measures for households, signs of stabilisation in the property market, and expansionary fiscal policy should help mitigate lingering external risks
- Trade disruption is likely to have diverging effects on **Asian economies** while macro policies should be supportive for growth

Policy Outlook

- The **Fed** is in "wait and see" mode. We expect some further gradual policy easing later this year, as rising growth concerns offset inflation worries
- The **ECB** policy rate should move into accommodative territory. German fiscal stimulus is likely to support growth in 2026
- Elevated global trade uncertainty is expected to prompt **diverging policy responses across Asia**. The Indian and Korean central banks are expected to ease
- **Chinese authorities** have pledged a "more proactive" macro policy but may limit fiscal measures on a substantial de-escalation of US-China tariffs

House View

- **Ultra-high policy uncertainty** and stop-start tariff escalation have raised market volatility, in line with our view of markets 'spinning around' in 2025
- Relative underperformance in US stocks, bonds, and the dollar point to an end of **'US exceptionalism'** and a move towards **'EAFE exceptionalism'**
- **Bond vigilantes are back**. Concerns about "deficits forever" are causing volatility in US Treasuries and affecting their reliability as a diversifier
- **As bond-equity correlations go haywire**, it will be important to find new sources of portfolio diversification. EM country level stock performance looks increasingly uncorrelated. Alternatives, such as private credit, hedge funds and defensive real assets can build resilience into portfolios

Scenarios

SPINNING AROUND	Our central scenario. Tariffs close to current levels, moderate US spending cuts. Extreme uncertainty. Stock market leadership broadens out. EMs are resilient
TOPPLING OVER	Full blown global trade war 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 June 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.

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