Investment Monthly

Bull market stays on course despite short-term markets dips

November 2025

Key takeaways

- While recent US-China trade tensions have triggered profit-taking, we continue to see further upside for risk assets. Our underweight on US Consumer Staples helps hedge downside risks, and we further add Energy to the underweight list. For bonds, we prefer investment grade and EM local currency government bonds over high yield. A multi-asset strategy helps diversify across asset classes, sectors and currencies, and gold remains a good diversifier.
- Rising US tech stock prices have raised AI bubble concerns, but we believe the rally is supported by solid earnings growth and substantial investments in AI infrastructure. However, given elevated US tech valuations, we diversify beyond IT and Communications into Financials and Industrials, and upgrade Utilities to overweight due to increasing electricity demand to support the cloud and AI.
- China's 15th Five-Year Plan reinforces its strategic priorities in domestic demand and supply, technological innovation, household and consumer wellbeing, supporting our overweight on mainland China's stocks. We upgrade Hong Kong equities to overweight due to a stabilising housing market, increased IPO and M&A activity, robust liquidity inflows and attractive valuations. While Japan's new Prime Minister is expected to pursue expansionary fiscal policies, funding is challenging amid increasing costs in social security and debt servicing, so we remain neutral on Japanese stocks.

Willem Sels
Global Chief Investment Officer, HSBC Private Bank and Premier Wealth

Lucia Ku
Global Head of Wealth Insights, HSBC International Wealth and Premier Banking

Asset class	6-month view	Comment
Global equities	▲	Global equities are supported by improving earnings momentum, easing inflation, AI investment, and central banks moving towards policy normalisation. We prefer quality stocks amid evolving policy and political landscapes.
Government bonds	▶	Despite fiscal concerns in some developed markets, government bonds still provide an attractive compensation above inflation, which helps build a key income stream for portfolios.
Investment grade (IG) corporate bonds	▲	Despite tighter credit spreads, global investment grade bonds still offer an attractive income stream amid falling policy rates and diversification benefits.
High yield (HY) corporate bonds	▼↓	As stretched valuations and rising credit market volatility are headwinds for global high yield bonds, we move them to an underweight position to exercise caution.
Gold	▲	Falling bond yields, USD weakness, strong ETF inflows and central bank purchases support the positive momentum. Gold remains a good diversifier against lingering global risks and uncertainties.

▲ "Overweight" implies a positive tilt towards the asset class, within the context of a well-diversified, typically multi-asset portfolio.
▼ "Underweight" implies a negative tilt towards the asset class, within the context of a well-diversified, typically multi-asset portfolio.
▶ "Neutral" implies neither a particularly negative nor a positive tilt towards the asset class, within the context of a well-diversified, typically multi-asset portfolio.
Icons: ↑ View on this asset class has been upgraded; ↓ View on this asset class has been downgraded. Chinese equity views herein are from HSBC PB and Wealth Global Investment Committee

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Talking points

Each month, we discuss 3 key issues facing investors

1. What should investors do amid recent market volatility?

- The recent escalation of US-China trade tensions has increased market volatility. Although these heightened fears of trade policy risks and spurred profit-taking, we view this rhetoric as a negotiation tactic rather than a fundamental shift.
- While we expect the bull market to stay on course, short-term market consolidation should not come as a surprise. Our underweight on US Consumer Staples helps hedge against economic growth and inflation uncertainties, and we add Energy to the underweight list due to deteriorating prices and demand. We prefer investment grade and EM local currency government bonds, and downgrade high yield bonds – which are relatively riskier – to underweight due to tight spreads and rising volatility. We also reduce our preferred maturity for US investment grade to 5-7 years.
- Although gold has seen some volatility recently, it remains a good diversifier, supported by strong inflows into gold ETFs and central bank purchases. Given the USD weakness, managing FX risk remains critical for asset allocation. Multi-asset solutions can help achieve diversification across asset classes, sectors and currencies.

2. Should investors be worried about an AI bubble?

- The stock prices of many large-cap US tech companies have surged substantially, creating concerns about AI bubbles. We think the rally is supported by earnings growth rather than sharp multiple expansion. The sector's fundamental strength is also underpinned by huge investments in AI and infrastructure, such as data centres and utilities, driven by the rapid growth of the cloud and end-user demand for AI.
- Despite valuations at 32x forward P/E (versus 79x in the early 2000s), we believe the Mag-7 and broader US tech stocks should continue to deliver double-digit earnings growth in 2025 and 2026. AI adoption should also benefit hardware and software companies. Therefore, we are not worried about an AI bubble and view any market pullback as an opportunity.
- Given high US tech valuations, we are diversifying beyond IT and Communications into Financials and Industrials. The former benefits from deregulation and increased M&A activity, while the structural themes of nearshoring and US re-industrialisation make Industrials a compelling growth driver. We also upgrade Global and US Utilities to overweight due to rapidly increasing electricity demand (cloud and AI).

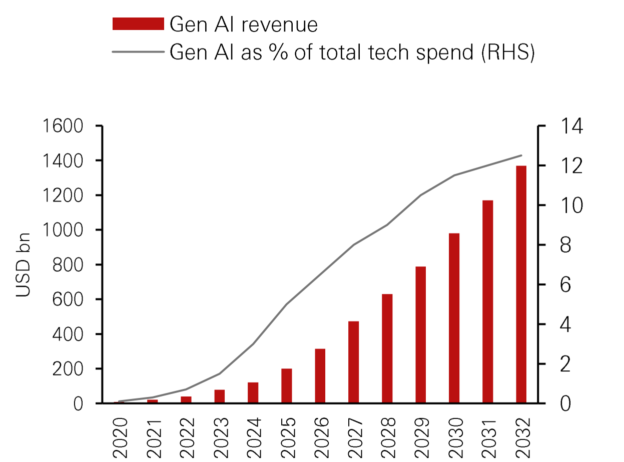
3. How are local developments affecting some Asian markets?

- China's Fourth Plenum outlines a clear demand-side-driven growth shift in the 15^{th} Five Year Plan (2026-30), with a focus on high-quality development, technology self-sufficiency, further economic reform, social development, people's livelihoods, environmental-social-governance (ESG), and national security. We remain overweight on Chinese equities, keeping exposure to the tech sector and high-dividend quality stocks.
- In Hong Kong, the headwinds of weak retail sales and property markets and being less of a beneficiary of AI innovation have eased. More government funding for AI development, a stabilising housing market, stronger retail sales growth, increased IPO and M&A activity, robust liquidity inflows and attractive valuations support upgrading Hong Kong stocks to overweight, aligning them with our existing overweight positions in mainland China and Singapore in Asia.
- Japan's new Prime Minister, Sanae Takaichi, is expected to pursue expansionary fiscal policies, reminiscent of former PM Shinzo Abe's 'Abenomics'. However, funding is challenging amid increasing costs in social security, debt servicing and defence, as well as rising pressure for tax cuts. Therefore, despite corporate reforms with rising share buybacks and dividends, we remain neutral on Japanese stocks.

Chart 1: Gold and silver have had an impressive rally this year

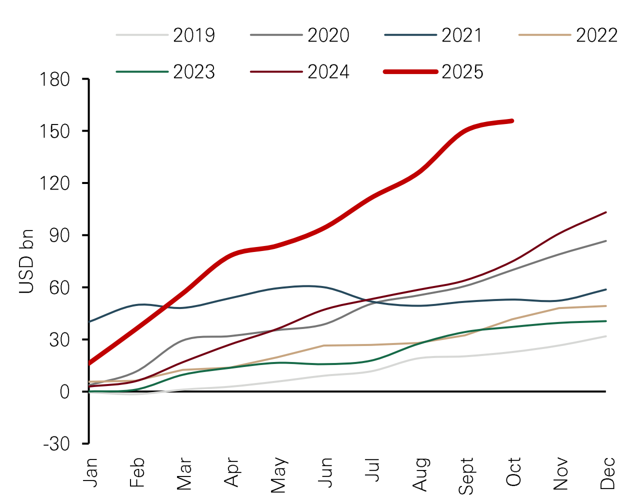
Source: Bloomberg, HSBC Private Bank and Premier Wealth as at 20 October 2025. Past performance is not a reliable indicator of future performance.

Chart 2: Gen AI revenue and investment are significant



Source: Bloomberg, HSBC Private Bank and Premier Wealth as at 20 October 2025.

Chart 3: Southbound fund inflows have been much stronger than usual this year



Source: Wind, HSBC Private Bank and Premier Wealth as at 21 October 2025.

Chinese equity views herein are from HSBC PB and Wealth Global Investment Committee

Asset Class Views

Our latest house view on various asset classes

Asset class	6-month view	Comment
Global equities		
Global	▲	Global equities are supported by improving earnings momentum, easing inflation, AI investment, and central banks moving towards policy normalisation. We prefer quality stocks amid evolving policy and political landscapes.
United States	▲	Despite the recent market dip, earnings upgrades, resilient consumer spending, ongoing investment in AI and infrastructure and Fed rate cuts remain key drivers for US equities. We view any market pullback as an opportunity.
United Kingdom	▶	Despite a rebound in some activity signals and consumer confidence, real household incomes are weak and should remain so as wage growth is expected to decline. Uncertainty leading up to the Autumn Budget continues to weigh on sentiment.
Europe ex-UK	▶	European markets recently joined global peers higher, but despite fiscal spending plans next year, softer external demand and political uncertainty have led to uneven performance. We prefer Spain and Italy, while French deficit concerns remain.
Japan	▶	Despite the continued reflation trend and structural reforms, rising expectations of expansionary fiscal measures under the leadership of the new Prime Minister, higher yields and tariff discussions with the US have tempered near-term sentiment.
Emerging Market (EM)	▶	Emerging markets stand out as key beneficiaries of Fed rate cuts, a weak dollar and FX diversification. EM Asia is preferred.
EM EMEA	▶↑	The region shows improving fundamentals and dividend strength while benefitting from the weaker dollar. Structural drivers in the UAE remain attractive, while South Africa is supported by expectations of lower policy rates and elevated gold prices.
EM LatAm	▶	USD weakness and rate cuts are supportive, but political uncertainties may limit upside.
Asia ex Japan equities		
Asia ex-Japan	▲	Asia remains a key source of diversification and opportunity in global portfolios, offering a compelling mix of reform-driven upside, resilient fundamentals, and long-term participation in the global technology and consumption cycles.
Mainland China	▲	The strategic focus on high-quality development and demand-side expansion highlighted in the October plenum reaffirms our preference for IT and internet leaders, domestic consumption plays, and high-dividend SOE stocks.
India	▶	Slowing earnings momentum and weak foreign investment flows remain headwinds for Indian equities in the near term.
Hong Kong SAR, China	▲↑	We upgrade Hong Kong equities due to an improving housing market outlook, increased local IPO activity, strong liquidity inflows and attractive valuations. We continue to favour banks, insurance, telecom, utilities and quality developers.
Singapore	▲	Singapore continues to attract regional capital, backed by a robust financial system and a stable policy backdrop.
South Korea	▶	We think post-election optimism and expectations of an acceleration in the Corporate Value-Up Programme may already be priced in. The fiscal deficit and export risk also limit the upside potential.
Taiwan China	▶	The market remains heavily concentrated in its dominant semiconductor sector, and its hardware and non-tech segments are not fully benefitting from AI tailwinds. Valuations are near the top of the five-year range.
Government bonds		
Developed markets (DM)	▶	Despite fiscal concerns in some developed markets, government bonds still provide an attractive compensation above inflation, which helps build a key income stream for portfolios.
United States	▶	The US government shutdown and trade-related headlines support bonds, but many rate cuts are priced in. The term premium in longer-dated Treasuries remains historically elevated. We maintain a 5-7-year duration preference.
United Kingdom	▶	With elevated price pressures, we believe the BoE is likely to hold rates steady until next April.
Eurozone	▶	While fiscal deficit concerns and a weak external backdrop weigh on the core Eurozone economies, improved credit ratings and prospects of further yield convergence support our preference for periphery government bonds in the region.
Japan	▼	We stay underweight on JGBs, especially in the long end, as markets may be concerned about higher issuance of government debt and fiscal sustainability risks.
EM (Local currency)	▲↑	Emerging markets benefit from supportive dynamics, including falling inflation, high real yields, a weaker USD and positive fiscal trajectories in several countries. EM local currency sovereigns also offer a relatively lower correlation to risk assets.
EM (Hard currency)	▶	We still find yields attractive but remain selective and generally focus on quality bonds.
Corporate bonds		
Global investment grade (IG)	▲	Despite tighter credit spreads, global investment grade bonds still offer an attractive income stream amid falling policy rates and diversification benefits.
USD investment grade	▲	US investment grade bonds offer an elevated carry and an opportunity to lock in yields from quality credit amid falling policy rates and the government shutdown. Following the recent rally, we tactically move our preferred duration to 5-7 years.
EUR investment grade	▲	With a relatively stable macro outlook, EUR credit keeps attracting international capital flows.
GBP investment grade	▲	GBP investment grade bonds offer attractive carry and are less impacted by rate volatility compared to gilts.
Asian investment grade	▲↑	The Asian credit market continues to benefit from global diversification flows and strong local demand for income. We favour Japanese and Australian IG bonds, Asian financials, as well as Chinese hard currency and Indian local currency bonds.
Global high yield (HY)	▼↓	As stretched valuations and rising credit market volatility are headwinds for global high yield bonds, we move them to an underweight position to exercise caution.
USD high yield	▼↓	Attractive overall yields and a low default rate persist, but stretched valuations and high yield's sensitivity to negative credit headlines lead us to downgrade the asset class to underweight.
EUR high yield	▼↓	In line with our global view, we prefer to move up in quality and avoid spread-widening risks from cyclically-low levels.
GBP high yield	▼↓	Similar to EUR high yield, with spreads below long-term averages, we see more attractive risk-reward in the GBP IG space
Asian high yield	▼↓	We downgrade Asian high yield to reflect our preference for quality credit amid trade-related and growth uncertainties.
Commodities		
Gold	▲	Falling bond yields, USD weakness, strong ETF inflows and central bank purchases support the positive momentum. Gold remains a good diversifier against lingering global risks and uncertainties.
Oil	▶	As geopolitical tensions in the Middle East seem to ease and supply remains excessive, oil prices will remain range-bound.

Sector Views

Global and regional sector views based on a 6-month horizon

Sector	Global	US	Europe	Asia	Comment
Consumer Discretionary	▶	▶	▼	▲	The momentum, spending and macroeconomic data continue to surprise positively. DM valuations are full, and the pricing environment is facing headwinds. European companies are struggling with the lingering effects of past price inflation, which is now limiting their growth potential as demand is soft (autos/luxury), and competition is rising in some segments (EVs/durable goods). In contrast, Asian companies remain attractive, trading at a discount to western peers, even as demand for local brands continues to rise and US sales remain supportive.
Financials	▲	▲	▲	▲	Global Financials reported stronger-than-expected results for Q3. Net interest income is likely to remain elevated as inflation remains stubbornly higher than expected, keeping interest rates elevated. Equity trading activity, bond issuance, IPOs and M&A remain strong. In Asia, we remain positive on China's economy and the improving sentiment in the region.
Industrials	▲	▲	▲	▶	The Industrials sector is benefitting from long-term developments including electrification, reshoring, supply-chain security, digital infrastructure, aerospace, and rising defence spending. However, uncertainty around tariffs remains a headwind to investment. Order books remain relatively healthy.
Information Technology	▲	▲	▶	▶	The AI revolution underpins the resilience of the IT sector, as its deployment impacts other sectors globally. Strong demand for AI software, related hardware and services is driving robust growth across many segments. Second-quarter results uniformly exceeded expectations, with reassuringly confident management guidance alleviating concerns over high valuations.
Communications Services	▲	▲	▶	▲	Communications stocks continue to deliver reassuring outperformance. In the US, attractive valuations are supported by above-average growth in sales and earnings driven by media and entertainment segments. Asia remains attractive, although relative valuations are less compelling. Europe's telecom services sector offers a far less attractive proposition in terms of investment returns due to fierce competition, a lack of scale, market complexity and high capital spending requirements.
Materials	▶	▶	▶	▶	The sector's fundamentals and commodity prices appear to have troughed with macroeconomic indicators slowly improving in China and Europe. In addition, we expect oil prices to decline over the next 12-18 months, providing some benefits to the chemicals industry. Valuations remain undemanding, but tariffs remain a risk.
Real Estate	▶	▶	▶	▶	The sector appears to have stabilised. Retail space and older offices are particularly challenged as alternative consumer purchasing channels evolve and refurbishments costs remain high. New office developments and housing are experiencing better supply-demand dynamics. The re-routing of supply chains is driving demand for new facilities in developed and some emerging markets.
Consumer Staples	▼	▼	▼↓	▶	We downgrade the sector in Europe as prices that increased during the pandemic remain elevated. Consumers are trading down and are less willing to pay for branded staples, while costs continue to rise, especially wages. This puts pressure on revenues and margins in the near term. The US Consumer Staples sector is also facing a weak pricing environment, particularly mass-market branded goods and mainstream food retailers. Valuations may be undemanding, but there is limited potential for sales growth or margin expansion.
Energy	▼↓	▼↓	▼↓	▼↓	We downgrade the sector on weak oil prices as supply outstrips demand, although US shale, as a high-cost swing producer, may adjust production if prices fall too much, limiting price declines. Gas is likely to remain in demand, especially as seasonal demand in the northern hemisphere may put upward pressure on gas prices. Low valuations, high dividends, and robust cash flows offer some support, but are not enough to offset the limited earnings and sales growth potential for integrated producers and energy services.
Healthcare	▶	▶	▶	▲	Asian Healthcare should benefit from improving demand dynamics, attractive valuations that are below their 5-year average, and rising investor interest in a new wave of innovative medicines. Tariffs, pricing, market access, and policy uncertainty related to the US are major concerns for all non-US healthcare companies and will continue to weigh on sentiment.
Utilities	▲↑	▲↑	▲	▶	We upgrade Global and US Utilities due to the anticipated rise in electricity demand, positive price trends, and increased spending on energy infrastructure. Many economies are undergoing the electrification of transportation and the expansion of digital infrastructure, while rising affluence drives demand for air-conditioning, freezers, etc. Utilities are already operating at full capacity, so substantial capital investment is required to upgrade generation capacity and transmission infrastructure. Valuations are undemanding.

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